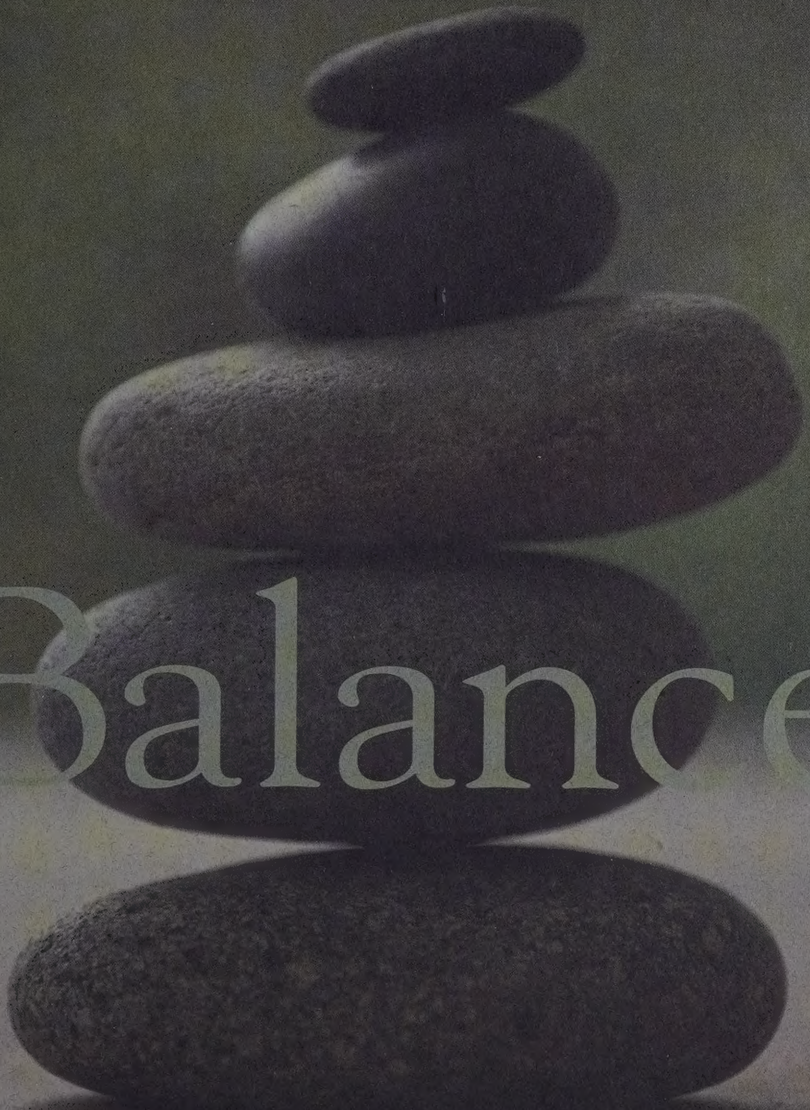
CANADIAN HYDRO
DEVELOPERS, INC.



Balance

ANNUAL
REPORT
2003

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Annual General and Special Meeting of Shareholders

The 2003 Annual General and Special Meeting of the Shareholders of Canadian Hydro Developers, Inc. will be held in the Safari Lodge at the Calgary Zoo, 1300 Zoo Road N.E., Calgary, Alberta at 3:30 pm on Tuesday, April 20, 2004

CEO's Message

BALANCE

Creating sound financial returns for our shareholders

Everyone knows that to be successful in life you need to have balance. Sounds easy, but putting theory into practice is tough. Balance, in your corporate life as well as in your personal life, is one challenge. Another challenge is managing various aspects in business to achieve the appropriate balance between risk and reward.

In each year's annual report, we include a general interest article. You are invited to review this year's article, entitled "Balance", which contains testimonials from various sectors of the business community and our employees. It is extremely satisfying to be acknowledged for balanced, fair dealing from employees, business associates and the communities where we operate. We pride ourselves in having highly motivated individuals throughout Canadian Hydro, carrying on the entrepreneurial spirit of the organization.

Canadian Hydro has assembled an enviable portfolio of green power projects in central and western Canada that utilize water, wind and forestry woodwaste as fuel to generate a substantial amount of power for Canadians. By using these sustainable sources, Canadian Hydro can offer long-term stable prices that do not fluctuate with changes in fossil fuel input costs.

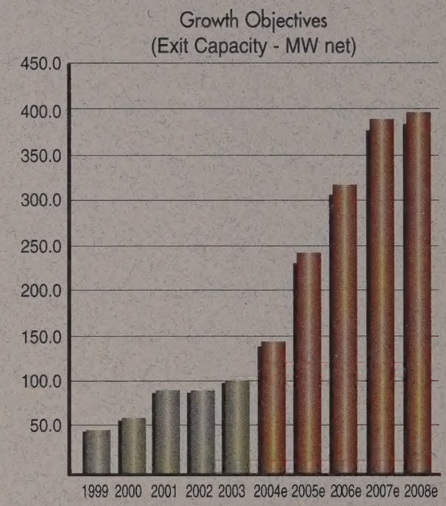
At Canadian Hydro, we strive to achieve balance in order to meet and, often, exceed our goals and to maximize long-term profit to shareholders. Our vision statement says it all: "To be the premier independent producer of green power in Canada focusing on environmental stewardship and growth, empowering employees, and providing attractive returns to investors."

Before starting to write this year's CEO message, I reviewed our previous year's annual reports. For 14 years, we have been advancing this same message. Last year the theme was "Clean, Simple and Sound®", the year before it was "Growth". In 2000, Canadian Hydro celebrated a record year of operations from its wind and hydroelectric plants. Employees were highlighted in 1999. Consistent in each year's report is our belief that sustainable development begins with the health and safety of our employees, extends to our community, leads to the prevention of pollution, and improves our financial performance. 2003 is no exception. Record results were achieved on several fronts.

An Overview of 2003

This past year was arguably the busiest and most successful in Canadian Hydro history. On the operational front, electricity generation, revenue and cash flow achieved record levels in 2003. This was primarily as a result of significantly higher spot prices in Alberta and the spring startup of the 30 MW first phase of the Pingston Hydroelectric Plant in British Columbia.

During the year, $89 million of additional debt and equity was raised to enable three new projects, totalling 57.5 MW, to proceed to construction - two run-of-river hydro and one biomass, supported by long-term power sale agreements from credit-worthy counterparties. When complete in 2004 and 2005, these projects will double the Company's 2002 operating base. Canadian Hydro also set the stage for further growth by signing new green power customers, securing water rights priority for several new sites in British Columbia, actively planning for a new wind plant, and requesting a new hearing for its 80 MW Dunvegan Hydroelectric Project in Alberta.



2003 Achievements

- Achieved commercial operations at the 30 MW Pingston Hydroelectric Plant on May 8, 2003;
- Signed a 20 year green power sale contract with Alberta Infrastructure for the Grande Prairie EcoPower® Centre;
- Signed a multi-year agreement with Nexen Marketing to supply green credits to the Alberta Urban Municipalities Association commencing January 2004;
- Raised $30 million in common equity and $59 million of construction bank lines of credit for three construction projects;
- Started construction in May on the 25 MW Grande Prairie EcoPower® Centre with a scheduled operational date of January 1, 2005;
- Started construction of the 15 MW Pingston Expansion Hydroelectric Project for a spring 2004 commissioning;
- Began site preparation in November for 2004 construction of the 25 MW Upper Mamquam Hydroelectric Project, scheduled to be operational in Q2 2005;
- Continued to pursue development of the 80 MW Dunvegan Hydroelectric Project in Alberta.

During the year, the Company signed an Agreement in Principle with the Town of Peace River to address their flood related concerns, which had featured prominently in the March 2003 unfavourable regulatory decision;

- Increased electricity production by 23% to 360 million kWh; and
- Realized record financial results:
  1) Revenue increased 29% to $21.7 million;
  2) Cash flow from operations increased 45% to $8.9 million;
  3) Earnings before impairment of assets and taxes of $5.7 million were 68% higher than 2002; and
  4) Net earnings of $3.1 were achieved.

Business Environment

Canadian Hydro operates in the Canadian provinces of British Columbia, Alberta and Ontario. Each of these jurisdictions actively supported the development of low-impact renewable energy sources in 2003.

The new government in British Columbia, led by Premier Gordon Campbell, has been pushing hard to encourage the construction of new generating capacity to meet demand, and has made legislative and policy changes to facilitate competition among independent power producers. Over 15 long-term contracts have been signed for new plants this year alone. Talk about climate change! I cannot tell you enough about the change in business climate in British Columbia. It is the premier location for new plant development in the country.

Alberta is in the process of enacting legislation to support the planning and pre-building of much needed transmission capacity that will make it easier to transport power throughout the province and for export. Alberta is currently in a surplus generation position as a result of its successful deregulation of the wholesale aspect of the power industry in 1996. This move resulted in 3,000 MW of new capacity being added to the 1999 base of 8,000 MW. Due to natural gas prices firming in 2003, however, the average spot price for electricity in 2003 rose to $63 as compared to $43 per MWh in the prior year. Alberta is the only province where the Company has any exposure to spot prices. Approximately 85% of the Company's generation is sold under various long-term power sale contracts.

In terms of renewable energy, the Alberta government led by example in 2003 by signing long-term contracts for over 90% of its power requirements from green sources. Canadian Hydro is proud to be providing more than 45% of the government's power requirements, commencing in 2005, from our Grande Prairie EcoPower® Centre. The Alberta Urban Municipalities Association, which aggregates demand for approximately 250 municipalities, followed the provincial government's lead in 2003, promoting an increase to 20% green power (up from 2%) by signing a multi-year contract with Nexen Marketing. Canadian Hydro will be the supplier of Renewable Energy Certificates to this contract beginning in January 2004.

Ontario is making history this winter with its proposed Renewable Portfolio Standard that will see a minimum of 5% by 2007 and 10% by 2010 of total electricity supply coming from certified renewable sources. Like British Columbia, Ontario is in need of new generating capacity. New generation is not being built, due to the current uncertainty in Ontario surrounding its attempt at deregulation. We continue to monitor Ontario carefully with respect to potential development opportunities.

Corporate Governance

Corporate governance is paramount to the Company and is a key component of balance. A section on corporate governance has been added to this year's annual report highlighting the rules under which the Company operates.

New Director and Employees

JR Shaw resigned from the Board this past spring. On behalf of the Board and all employees at Canadian Hydro, I would like to acknowledge the many contributions that Mr. Shaw made to the Company during his tenure as a Director. Mr. Shaw's counsel has been, and continues to be, highly valued by Canadian Hydro.

In his place, we welcome Michael Abram, elected to the Board in April. Mr. Abram has been the President of Star Choice Communications Inc. since mid 2003. Mr. Abram is also the President of Shaw Ventures Ltd., a major Canadian Hydro shareholder since 2000. Before this, Mr. Abram was President of Ikon Office Solutions Canada.

We are proud and extremely pleased to have access to a balanced, diverse and strong Board of Directors. The depth of knowledge this group of talented individuals brings to Canadian Hydro is truly appreciated.

To the communities, business associates and employees that provided the testimonials in support of this year's theme, 'balance', we thank you and appreciate your doing business with Canadian Hydro.

Finally, as always, it is the employees at Canadian Hydro that represent its underlying strength. More than any other year, it has been the drive and passion of this hard working team that has resulted in growth on all fronts in 2003.

On behalf of the Board of Directors,

John D. Keating
Chief Executive Officer

Corporate Governance

Proper corporate governance creates balance between the need for confidentiality in business dealings and the right of shareholders to have information about the Corporation's activities. Canadian Hydro's Board and Management believe that effective corporate governance practices and integrity form the base upon which to build investor confidence and shareholder value.

Notwithstanding its modest size, Canadian Hydro's Board and Management are committed to the highest standards of corporate governance and ethical conduct in all of the Corporation's activities. The Board supports the Guidelines for Corporate Governance adopted by the Toronto Stock Exchange ("TSX"). In many cases, Canadian Hydro's policies exceed the TSX standards. For example, Canadian Hydro only issues one class of share, each with one vote. The total number of outstanding options is approximately 6% of the issued and outstanding capital, well within the TSX limits of 10%.

Canadian Hydro's eight member Board is lead by a non-executive chair, Dennis Erker. Six of the directors are unrelated, as that term is defined by the TSX. The other two directors, John Keating, Chief Executive Officer, and Ross Keating, President and Chief Operating Officer, are the founders of the Corporation and significant shareholders. Both of the Board Committees, Audit and Compensation, are comprised entirely of unrelated directors. The small size of the Board facilitates effective corporate governance without the necessity for additional committees.

The Board of Directors has overall responsibility for the management and supervision of Canadian Hydro's affairs. The senior officers, all of whom are appointed by the Board, carry out the day-to-day operations. The Board, through the Compensation Committee, approves the officers' compensation, monitors their performance and oversees succession planning. The Board has adopted policies and procedures for approval of transactions, delegation of authority and execution of documents, which enable the Corporation to operate effectively while retaining appropriate levels of control and oversight.

An important component of the Board's accountability is the approval of the strategic plan and monitoring of its implementation. All aspects of Canadian Hydro's activities, such as prospect development, risk management and compensation are measured against the parameters established under the strategic plan.

Accurate, timely and non-selective communication by Canadian Hydro is critical to investors and other stakeholders. The Policy on Disclosure, as approved by the Board, governs the dissemination of information to the public. The Board or the appropriate committee approves continuous material such as annual and quarterly financial information.

The Audit Committee has been delegated the primary responsibility for maintaining the integrity of internal financial controls and management information systems. This committee meets quarterly with the Chief Financial Officer and the external auditors to review financial results and to consider appropriate internal controls and systems.

In addition to its responsibility for executive compensation, the Compensation Committee also reviews the directors' compensation. At this time, the Board has chosen to compensate the Directors by granting stock options. The Chair of the Board and the chair of each of the committees receive additional stock options for acting as such.

The Corporation continues to strive to enhance its corporate governance. Canadian Hydro is in the process of developing policies and procedures for assessment of the effectiveness of both the Board as a whole and its individual members as well as orientation and education of Board members. The Board is also in the process of adopting a Code of Business Conduct, embodying the principles followed by Canadian Hydro in carrying on its business.

A detailed description of the Corporation's corporate governance practices is contained in the Information Circular accompanying the Notice of Annual General and Special Meeting of Shareholders to be held April 20, 2004.

Five Year Historical Summary

	2003	2002	2001	2000	1999
FINANCIAL RESULTS ($)					
Revenue	21,662,409	16,795,608	15,608,120	17,745,163	9,553,909
Cash flow from operations	8,854,648	6,152,123	5,649,434	6,350,109	3,670,039
Per share (diluted)*	0.14	0.12	0.14	0.22	0.13
Net earnings (loss)	3,087,419	(3,366,592)	3,700,547	2,770,303	1,307,316
Per share (diluted)	0.05	(0.07)	0.09	0.10	0.05
Capital expenditures	22,343,822	28,093,696	45,915,247	4,912,607	7,195,307
Total assets	193,310,972	164,432,966	140,650,955	80,900,367	69,752,680
Long-term debt	61,798,742	66,910,572	40,779,754	30,914,426	37,206,193
Shareholders' equity	103,314,241	71,107,330	65,995,879	31,725,956	16,953,699
Common shares outstanding					
Basic	68,885,539	52,590,539	48,151,301	28,062,427	27,137,427
Fully diluted	78,527,761	61,612,761	60,391,423	41,302,707	29,882,427
Net book value per share	1.50	1.35	1.37	1.13	0.62
Return on average capital employed**	12%	10%	10%	16%	14%
Cash flow return on average shareholders' equity	10%	9%	12%	26%	23%
Net income (loss) return on average shareholders' equity	4%	-5%	8%	11%	8%
OPERATING RESULTS					
Installed capacity – MW (gross)	125.4	95.4	95.4	69.4	48.5
Installed capacity – MW (net)	103.9	88.9	88.9	62.9	46.8
Electricity generation – MWh (gross)	442,789	315,105	264,529	259,632	184,551
Electricity generation – MWh (net)	360,007	293,881	245,113	235,160	176,492
Electricity generation – MWh (net)					
British Columbia	114,040	48,238	44,432	53,378	60,480
Alberta	175,595	181,690	140,536	117,840	63,589
Ontario	70,372	63,953	60,145	63,942	52,423
Hydroelectric	238,509	171,933	147,328	163,480	144,157
Wind	119,222	118,660	80,507	59,766	32,335
Natural Gas	2,276	3,288	17,278	11,914	–
Electricity generation sold under long-term contract	85%	82%	84%	83%	96%
Average price received ($/MWh)	60.17	57.15	63.68	75.46	54.02
STOCK MARKET					
Price range ($ per share)					
High	2.48	2.78	3.45	3.20	1.10
Low	1.60	1.80	1.75	0.72	0.65
Close	2.20	2.24	2.05	2.99	0.75
Volume (shares)	6,361,800	5,730,891	12,329,250	9,845,600	2,398,400

*Cash flow from operations per share (diluted) is provided to assist management and investors in determining the cash flow from operations on a per share basis and does not have any meaning prescribed in Canadian generally accepted accounting principles and may not be comparable to similar measures provided b other companies.

**The ratio of earnings before taxes, interest on long-term debt, amortization, stock compensation expense, prospect development costs, and impairment of assets to average capital assets, excluding construction-in-progress.

Environmental, Health and Safety Policy

Environmental stewardship is the foundation upon which we have built our business. It is the framework of the vision and planning that will carry our company into the future. For Canadian Hydro, environmental stewardship is not only the secret to our success, it is a way of life. We believe that environmental stewardship begins with the health and safety of our employees, extends to our community, and leads to the prevention of pollution.

Our commitments to our employees, our community and the environment are of utmost importance. These commitments are reflected in our guiding principles:

- We strive to meet or surpass all legislative, regulatory and other adopted requirements;
- We fully integrate health, safety and environmental considerations into corporate planning exercises and operational activities;
- We strive to continually improve our performance through achieving and advancing health, safety and environmental objectives and targets, including pollution prevention;
- We undertake all our activities in a manner that identifies, assesses and manages all health, safety and environmental risks;
- We engage communities, governments and other stakeholders in meaningful dialogue to address health, safety and environmental concerns; and
- We advance our ideals through implementation of an effective and efficient health, safety and environmental management system.

By ensuring safe operation of our facilities, promoting environmental stewardship, and creating value for our customers and shareholders, we will continue to build a sustainable business for the long-term.

John D. Keating,
Chief Executive Officer

Ross Keating,
President and Chief Operating Officer

Report on Operations

2003 vs. 2002 Electricity Generation – by Province and Technology

		Electricity Generation – MWh		
	Size (MW[1])	2003	2002	Variance
British Columbia	25.0	114,040	48,238	+ 136%
Alberta	68.0	175,595	181,690	- 3%
Ontario	10.9	70,372	63,953	+ 10%
Totals	103.9	360,007	293,881	+ 23%
Hydroelectric	50.5	238,509	171,933	+ 39%
Wind	47.4	119,222	118,660	+ 1%
Natural Gas	6.0	2,276	3,288	- 31%
Totals	103.9	360,007	293,881	+ 23%

[1] Reflecting CHD's net interest.

Canadian Hydro (CHD) owns and operates ten hydroelectric, three wind and one gas-fired power plants in the Canadian provinces of British Columbia, Alberta and Ontario. The Company exited the year with 103.9 MW of generation capacity. All thirteen of CHD's water and wind plants have been certified under Environment Canada's "Environmental Choice"[M] program as EcoLogo[M] Certified emissions-free energy sources.

2003 OPERATIONS

British Columbia

On May 8, 2003, the Pingston Hydroelectric Plant began commercial operations and produced at full capacity (30 MW) over the summer and into the fall, when production began to fall-off due to normal seasonal flow reductions. This plant is a showcase facility with its 4-kilometre tunnel, 590-metre gross head (vertical drop), large and sophisticated, remotely located intake, and split-face concrete block powerhouse located on the shore of Upper Arrow Lake, 60 kilometres south of Revelstoke. A 50 percent expansion to this plant is currently underway and is described in 'New Plant Activity' below.

CHD has operated the 10 MW Akolkolex Hydroelectric Plant since its completion in the spring of 1995. The past year was uneventful for Akolkolex with the facilities operating extremely well. Akolkolex continues to be a star performer within CHD's growing fleet of long-life hydro plants.

Alberta

CHD operates four hydroelectric, three wind (77 turbines) and one gas-fired plants in Alberta. The Company began in Alberta when it commissioned the

Belly River Hydroelectric Plant in 1991. Since then, CHD has designed, constructed and operated the Waterton, St. Mary and Taylor Hydroelectric Plants, acquired the Cowley Ridge Wind Plant, added five new turbines to this plant, and in 2001 constructed the Cowley North and Sinnott Wind Plants. Electricity deregulation coupled with high electricity prices in the late 1990's created opportunities for the Company to enter the merchant energy arena with Drywood, Taylor, Cowley North and Sinnott. Due to the low Power Pool of Alberta (Pool) spot prices in 2002, and the variability and uncertainty of future prices, the Company continues to concentrate the majority of its resources on projects with long-term power sales contracts.

The merchant Drywood gas-fired plant continued its temporary shut-down due to low spark spreads (the difference between electricity and natural gas price) continuing into 2003, operating only a few weeks during the year. This plant is operated only when Pool and natural gas fundamentals justify its operation. As this plant is a non-core asset, CHD intends to sell this plant in 2004.

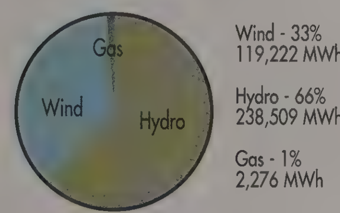
On December 7, 2002, a wind turbine at the Cowley North Wind Plant failed due to a gearbox problem. Subsequent investigation revealed similar issues with several other machines resulting in the prolonged shutdown of four units. During the first quarter 2003, the turbine manufacturer investigated the cause of the problem, replaced four gearboxes, and repaired several others. Revenue loss resulting from this shutdown, and the cost of repairs and replacement of the gearboxes were covered by the manufacturer in accordance with their five-year warranty. CHD continues to work with the manufacturer towards improving plant performance and reliability.

CHD's Alberta hydroelectric plants operated well during 2003 without major incidents.

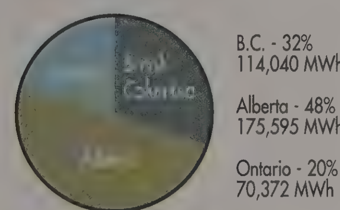
Ontario

The Company operates four hydroelectric plants in three centres in Ontario: Appleton and Galetta near Ottawa, Moose Rapids near Sudbury, and Ragged Chute in

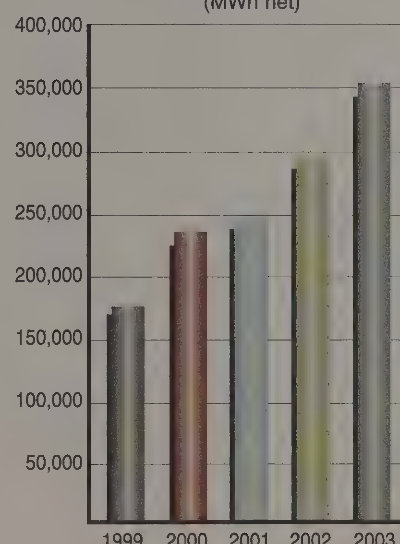
2003 Generation By Technology



2003 Electricity Generation By Province



Electricity Generation
(MWh net)



northern Ontario, near New Liskeard. Two operators run and maintain the two facilities near Ottawa, and two operators run each of the Moose Rapids and Ragged Chute facilities. All four plants operated extremely well in 2003, with record generation and minimal downtime due largely to the diligent attention of our operations personnel.

NEW PLANT ACTIVITY

Pingston Expansion Hydroelectric Plant (15 MW; 7.5 MW net to CHD) - B.C.

By September 2003, CHD and its 50% partner, Brascan Power, received all regulatory approvals and commenced construction on a 15 MW (7.5 MW net to CHD) expansion of the existing Pingston Hydroelectric Plant that achieved commercial operations on May 8, 2003. The expansion consists of a third, 15 MW turbine, a generator and transformer, an extension to the powerhouse, and 600 metres of buried penstock from the lower tunnel outlet to the powerhouse. By year-end, construction crews had installed the penstock, and expanded the powerhouse by 50% to accommodate the new turbine and generator. Equipment is expected in February and March, with a planned start-up date in Q2 2004. This expansion is expected to cost $8.6 million ($4.3 million net to CHD), and generate an additional 40,000 MWh per year of energy and environmental attributes, which have been contracted for 20 years to B.C. Hydro. The project has been financed with a combination of debt and equity, which was raised during 2003.

Grande Prairie EcoPower® Centre (25 MW) - Alberta

Construction on this 25 MW biomass cogeneration plant commenced in May 2003. The proposed design will be a showcase facility that will result in an estimated 85% reduction of particulate emissions from Canfor Corporation's Grande Prairie and Hines Creek mills through the removal of existing wood residue incinerators, and the significant reduction of greenhouse gas emissions through the displacement of other polluting power sources. The project will also have a positive economic impact on the City of Grande Prairie through the creation of 20 new jobs for its residents. The Company plans to have this plant EcoLogo℠ certified.

Completion of the Grande Prairie EcoPower® Centre is anticipated by the end of Q4 2004, is expected to cost $56.3 million, and will generate 175,000 MWh per year of energy and environmental attributes. The Government of Alberta, through Alberta Infrastructure, will purchase 110,000 MWh of power and environmental attributes annually for 20 years from this project. Canfor will purchase approximately 40,000 MWh of power and environmental attributes annually, as well as steam heat from this plant under a "life-of-project" contract. An additional 22,000 MWh per year of power has been contracted for 15 years to the City of Grande Prairie. The project has been financed with a combination of debt and equity, which was raised during 2003 and 2001, respectively.

Upper Mamquam Hydroelectric Project (25 MW) - B.C.

Located on the Mamquam River, near the Squamish area just 60 minutes north of Vancouver, this run-of-river hydroelectric project consists of an intake, 1,270 metres of low pressure penstock, including a 135 metre lined tunnel section, 365 metres of high pressure penstock, and a powerhouse with two horizontal Francis turbines. All regulatory approvals were received by October 31, 2003, and construction commenced in November 2003. Completion of this project is anticipated by spring 2005, is expected to cost $35.1 million, and will generate approximately 103,000 MWh per year of power and environmental attributes, which have been contracted for 20 years to B.C. Hydro. The project has been financed with a combination of debt and equity, which was raised during 2003. The Company plans to have this plant EcoLogo℠ certified.

PROJECTS IN DEVELOPMENT

Taylor Wind Plant (3.4 MW) - Alberta

Located adjacent to CHD's 13.0 MW (6.5 MW net to CHD) Taylor Hydroelectric Plant, construction of this wind plant is expected to commence in the summer of 2004. Using nine, 375 kW refurbished turbines similar

to the turbines at the Cowley Ridge Wind Plant, this plant is expected to cost $2.0 million and generate approximately 7,400 MWh per year of power and environmental attributes. The power will be sold on a merchant basis through the Pool.

Sinnott Infill Wind Plant (52 MW) - Alberta

CHD has optioned the remaining undeveloped portion of the lands where the existing 6.5 MW Sinnott Wind Plant is located, which will allow for the development of up to a 52 MW wind plant. While regulatory approvals and long-term power sale contracts are required prior to proceeding with this project, the introduction of the federal government wind incentive in 2002 (i.e. $10 per MWh of generation, for the first ten years of operation) significantly improves the economics of wind and, thus, the likelihood of this project proceeding.

Wind Prospects (92 MW) - Alberta

CHD has identified several ideal areas for wind development in southern Alberta, and has optioned the land with owners. Wind monitoring stations have been erected and data is being collected and evaluated in order to determine the optimal areas for future wind development. Again, regulatory approvals and long-term power sale contracts are required before these prospects can be developed. The federal government wind incentive greatly enhances the likelihood of development of these prospects.

Dunvegan Hydroelectric Plant
(80 MW) - Alberta

On March 25, 2003, the Company received an unfavourable decision regarding its proposed

Dunvegan Hydroelectric Prospect from regulators. Based on the decision, which highlighted several areas of concern, CHD has chosen to reapply to regulators for the approval of the prospect utilizing the information previously filed along with considerable new evidence obtained since the original hearing in 2002 in the area of ice modeling, mitigation strategies for the Town of Peace River and fish studies. Management anticipates requesting a hearing date of late spring 2005 from the regulators, and anticipates a decision will be rendered in late 2005.

Dunvegan is designed as a low-head, run-of-river hydro plant on the Peace River. Due to the size and flow of the river, this plant is expected to operate at an 84% capacity factor, generating 589,000MWh per year.

Otonabee Hydroelectric Plant
(5.6 MW) - Ontario

This run-of-river hydro facility is planned to be constructed adjacent to two of the locks owned by the federal government on the Otonabee River section of the Trent-Severn Waterway near Peterborough. All regulatory approvals have been received. However, due to the relatively small size of this project and uncertainty surrounding deregulation in Ontario, CHD has entered into an option agreement with an Ontario developer to sell this project.

locations

Development Projects

15	BC	hydro	Upper Mamquam*
16		hydro	Pingston Expansion*
17	Alberta	hydro	Dunvegan
18		biomass	Grande Prairie*
19		wind	Taylor Wind*
20		wind	Sinnott Infill
21		wind	Wind Prospects
22	Ontario	hydro	Otonabee

* Under Construction

Operating Plants

1	BC	hydro	Akolkolex
2		hydro	Pingston
3	Alberta	hydro	Belly River
4		hydro	St. Mary
5		hydro	Taylor
6		hydro	Waterton
7		gas	Drywood
8		wind	Cowley Ridge
9		wind	Cowley North
10		wind	Sinnott
11	Ontario	hydro	Ragged Chute
12		hydro	Moose Rapids
13		hydro	Galetta
14		hydro	Appleton

Operating Plants & Development Projects

OPERATING PLANTS

Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser	Contract Expiry
BC	hydro	Akolkolex	10.0	100%	BC Hydro	Apr 1, 2015
	hydro	Pingston	30.0	50%	BC Hydro	May 7, 2023
Alberta	hydro	Belly River	3.0	100%	TransAlta	Mar 28, 2011
	hydro	Waterton	2.8	100%	TransAlta	Nov 6, 2012
	hydro	St. Mary	2.3	100%	TransAlta	Dec 10, 2012
	hydro	Taylor	13.0	50%	Spot	n/a
	wind	Cowley Ridge	21.4	100%	TransAlta/ Shell/spot	Dec 31, 2013
	wind	Cowley North	19.5	100%	ENMAX/spot	Aug 31, 2006
	wind	Sinnott	6.5	100%	ENMAX/spot	Aug 31, 2006
	gas	Drywood	6.0	100%	Spot	n/a
Ontario	hydro	Ragged Chute	6.6	100%	OEFC [1]	Mar 7, 2006
	hydro	Moose Rapids	1.3	100%	OEFC [1]	Nov 13, 2027
	hydro	Appleton	1.4	100%	OEFC [1]	Mar 1, 2024
	hydro	Galetta	1.6	100%	OEFC [1]	Jan 15, 2009
Operating Projects						
		100% share	125.4			
		Company share	103.9			

DEVELOPMENT PROJECTS

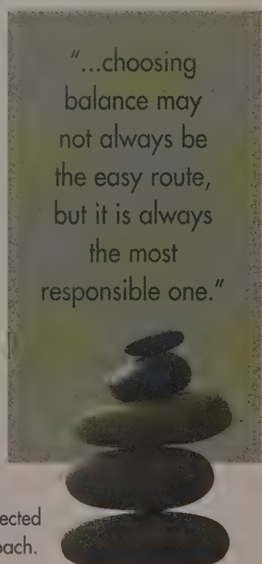
Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser
BC	hydro	Pingston Expansion	15.0	50%	BC Hydro
	hydro	Upper Mamquam	25.0	100%	BC Hydro
Alberta	biomass	Grande Prairie EcoPower® Centre	25.0	100%	Alberta Infrastructure/Canfor City of Grande Prairie
	hydro	Dunvegan	80.0	100%	Pursuing
	wind	Taylor Wind	3.4	100%	Merchant
	wind	Sinnott Infill	52.0	100%	Pursuing
	wind	Wind Prospects	92.0	100%	Pursuing
Ontario	hydro	Otonabee	5.6	100%	Pursuing
Development Projects					
		100% share	298.0		
		Company share	290.5		
Operating and Development					
		100% share	423.4		
		Company share	394.4		

[1] Ontario Electricity Finance Corporation

Balance

What it means to investors, stakeholders and employees

Canadian Hydro Developers Inc. chose a photograph of a carefully placed pillar of stones for the cover of this year's annual report to illustrate the theme of 'balance'. The idea came from discussions about how the Company balances the goals of stakeholders with stewardship of our planet - a balance that results in benefits for all. While it is a relatively simple task for a group of executives sitting around a boardroom table to decide that their company's image is the epitome of balance, it's a formidable challenge to actually achieve it.



Since its inception in 1990, Canadian Hydro's activities have always centered on this theme. Lead by the energetic and dedicated Keating brothers-John and Ross - they recognized that they first needed to establish a rock solid foundation. They did this by selecting employees who all share their vision. And then, they prudently built upon that foundation, to ensure that the Company portfolio and philosophy were true to form. This foundation then attracted the attention of like-minded investors whose elected board representatives support this approach.

For Canadian Hydro, geographic balance is achieved by having operations in three different provinces. Environmental integrity is fostered by building EcoLogo[M] certified wind, run-of-river hydro, and biomass power plants. Combined, both aspects contribute to Canadian Hydro's corporate balance and shareholder interests. But what about all the other areas of balance - the ones that can't be measured in a bar graph?

To evaluate how well Canadian Hydro has achieved overall balance and is perceived in the community, we asked employees and business associates for their perspective. Their collective responses were eloquently and passionately in support of the Company's efforts. They all agreed that choosing balance may not always be the easy route, but it is always the most responsible one.

Support From the Business Community

"A philosophy that successfully balances both the financial and environmental considerations to achieve steady growth over the long term makes perfect sense for all stakeholders," said J. K. (John) Enns, Executive Director of Property

Photographs on next page: Clockwise from Top Left:

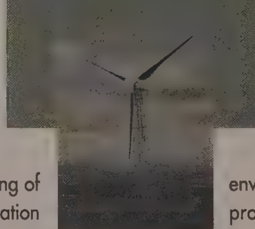
- Intake at Pingston
- Management Meeting
- Chris Ford balances 150′ atop of one of the wind turbines at Cowley North
- The Grande Prairie EcoPower® Centre under construction




Management, Alberta Infrastructure, Government of Alberta. "Our confidence in our relationship with Canadian Hydro is based partly on cultural similarities and shared values within our organizations. The Government of Alberta also recognizes the need to balance our broader environmental objectives against specific fiscal realities when setting our business goals; we also value lasting solutions over quick fixes."

Charles Donald, an Account Executive with Rogers Insurance in Calgary agreed by saying, "Incorporating both environmental and economic considerations does not mean that one of these interests must come at the expense of the other. In fact, one of the attributes that attracts me to Canadian Hydro is that they have been able to pursue both the environmental and shareholder interest because they don't view either as mutually exclusive but rather as parallels. Bringing both considerations to bear has forced them to think unconventionally and, in doing so, capitalize on opportunities that others may not have the vision to pursue. I believe that support [to achieve this balance] comes from not only the management and employees of Canadian Hydro, but in conjunction with its suppliers, its users, its shareholders and the community. It is this collective feeling of inclusion that I believe has been a consideration in this company's success."

"...they have been able to pursue both the environmental and shareholder interest because they don't view either interest as mutually exclusive but rather as parallels."



"But the vision must be supported by the economic reality of the competitive marketplace," adds Donald. "This vision requires a long-range plan to produce results commensurate with the individual's expectation. Rapid changes or short-term gains may well lose the consistency of purpose that Canadian Hydro has developed with the market and society."

Paul Kemp, Project Engineer and Principal with Canadian Projects Limited Engineers and Project Managers of Calgary, believes that the results of this strategy and philosophy make an impact far beyond the walls of a boardroom. "The creation of a sustainable energy supply for Canada will reap rewards for us today, for our children tomorrow and future generations to come," explains Kemp. "I personally believe that the consumption of fossil fuels should be merely a passing phase to allow us to make a transition to long-term sustainable energy supplies. The energy generation market is slowly recognizing that 'full cost accounting', which takes society, environment and economy into consideration, will direct us to making the right long term choices towards a sustainable society. Creation of a sustainable energy portfolio (like Canadian Hydro's) must be undertaken with a long term perspective. Renewable energy generation is in our blood - it feels right, it is very exhilarating to be a part of and constantly tests our knowledge and creativity."

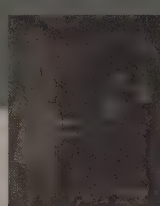
"I also believe in sustainable development for the future and that there are undeveloped, environmentally sustainable means of meeting energy demands that must be pursued in efforts towards a sustainable society," explains Cory Williams, a Civil Engineer, with Canadian Projects Limited, Calgary. "This is definitely the best approach for the environment and for investors. Balancing the needs of the environment and investors is vital to this process. I understand and subscribe to Canadian Hydro's philosophy of Clean, Simple, and Sound® energy generation."

"Life is always a balancing act, from family, to business, and the environment," remarks Hugh R. Sanderson, Vice President, First Energy Capital Corp. "Canadian Hydro demonstrates that working for the environment is good for shareholders. The Company's focus on the environment is profitable today, while still providing a long-term option on the future. Given the choice, I would rather work with people who care strongly about the future of my community and take action to make it better."

Support from Employees

"The enthusiasm, dedication and hard work of the employees at Canadian Hydro is without parallel, but the commitment to family life, the environment and our communities is what makes this a great place to work," explains Ann Hughes, General Counsel and Corporate Secretary. "I really feel like I am doing something to improve the world because at Canadian Hydro, the "means" is just as important as the "end". It is about how you do business as well as the business you do. As a parent, I've become more concerned about the legacy that my generation will leave for my children and grandchildren. I am much more connected to the future of the planet as a result of having a family. I want that future to be a sustainable one. Canadian Hydro Developer's philosophy of entrepreneurship encourages everyone to make their unique contribution to the enterprise."

> "The creation of a sustainable energy supply for Canada will reap rewards for us today, our children tomorrow and the future generations to come."



This positive corporate attitude permeates even beyond the head office, to the individuals who ensure the Company's three wind and 10 run-of-river hydro plants are well maintained and operating at peak potential.

Jim Beck, Chief Operator for Canadian Hydro in southern Alberta, believes that 'image is everything' and each plant's appearance is an integral part of Canadian Hydro's image. "I feel that my job within the Company is an important one because the overall appearance of the plants reflects us as a company that cares. When potential investors, neighbors, or other businesses see each one of our plants, they may base their opinion on how the Company is managed."

"One of the best reasons for working with Canadian Hydro is the fact that the upper management has always been accessible to me," says Mike Stockton, Chief Operator in Ontario. "I appreciate John and Ross Keating's honesty and the support that they have shown me. Management shares information with all their employees without hesitation, to keep us in the loop and to show how well we are progressing. They appreciate hard work and dedication to the job and reward in kind. I have not experienced that before and it is appreciated."

"My decision to work for Canadian Hydro was based on two things - (1) I wanted to respect who I worked for and with; and (2) I wanted to respect what I did for a living. With Canadian Hydro, I have both," adds Kent Brown, Chief Financial Officer. "We are one of only a few companies that can truly show that making the environment a priority does not diminish returns to investors. In fact, it improves them and gives the Company a competitive advantage. Canadian Hydro continues to demonstrate to people and other companies that you can achieve good returns, from an investment prospective, because you have made the environment a priority, not in spite of it.

Neil Findlay, a Facility Operator in Ontario, adds; "I enjoy working for Canadian Hydro because it's a progressive company working towards practical solutions to our present and future energy needs. It feels really good to be part of the solution not part of the problem, producing much needed power in a clean, environmentally sound, and economically viable way. It is good to know that the company you are working for is going to be here for many years to come, producing clean environmentally friendly power from renewable resources."

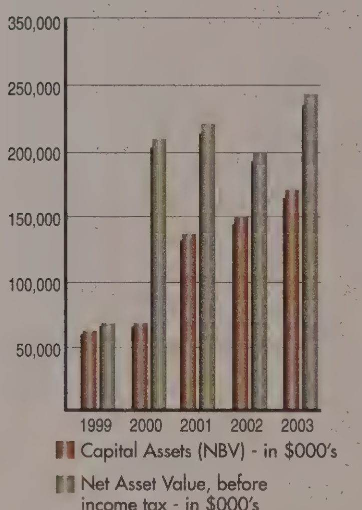
Balance. It's not about 'give and take' or 'win or lose'. It's not about compromise. True balance is about your vision and commitment, your pride and achievement. For Canadian Hydro Developers, it's about building something that is so spectacular that the world is a better place simply because you've invested in its care.

Independent Asset Evaluation

McDaniel & Associates Consultants Ltd., a highly respected independent firm of engineers, has evaluated each CHD plant as of January 1, 2004. The purpose in engaging McDaniel & Associates is to provide investors and shareholders with third party confirmation of future cash flow estimates.

Using the McDaniel & Associates results, management has prepared the following "pre-tax net asset value" (as opposed to "fair market value") of the Company's fully diluted common shares outstanding. Value has been computed assuming both an 8% and a 10% discount factor on future cash flows of the Company's 14 generating plants, projects under construction and certain development prospects.

Revenues can be predicted with some degree of reliability since the Company has, to varying degrees, sold forward approximately 85% of its output under long-term sales contracts. Using the discounted cash flows determined by the independent engineers, adjustments for long-term debt, working capital, other liabilities and equity that would be received from potential exercise of warrants and options (to account for full dilution), have been made. The Company estimates that income taxes will not be payable for several years as substantially all the Company's tax pools are represented by accelerated tax write-off classes.



DISCOUNTED CASH FLOW, NET OF OPERATING EXPENSES (PRE-TAX): [1] [3]

	8% Discount	10% Discount
	(in $ millions, except per share)	
McDaniel & Associates evaluation:		
Operating plants and projects under construction[2]	287.0	225.1
Development projects, risked at 50%[1] [3]	105.1	51.2
Working capital	8.2	8.2
Other Liabilities	(1.1)	(1.1)
Long-term debt, excluding current portion	(61.8)	(61.8)
Potential exercise of options	6.1	6.1
Potential exercise of warrants	13.7	13.7
Net Asset Value, before income tax	357.1	241.4
Per Share [4]	$ 4.55	$ 3.07

(1) Development Projects are risk adjusted by 50% of the estimated future cash flows plus the applicable discount rate.
(2) Includes certain projects that are under construction in 2003 (Pingston Expansion, Grande Prairie EcoPower® Center, Upper Mamquam, Taylor Wind)
(3) Includes certain projects that are at various stages of permitting for construction, namely Dunvegan, Sinnott Infill and certain wind prospects.
(4) Based on 78,527,761 fully diluted shares outstanding at December 31, 2003. Excluding Dunvegan, the pre-tax net asset value would be $3.55 per share using 8% discount rate, and $2.51 per share using a 10% discount rate. If only operating plants and projects under construction are considered, the pre-tax net asset value would be $3.21 per share using a 8% discount rate, and $2.42 per share using a 10% discount rate.

Management's Discussion & Analysis

The following MD&A, dated January 30, 2004 (with the exception of the 'Outstanding Share Data', which is dated February 16, 2004), should be read in conjunction with the audited Consolidated Financial Statements and related Notes included in this Annual Report.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report, constitute forward-looking statements. These statements relate to future events or Canadian Hydro Developers, Inc.'s (the "Company" or "CHD") future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Report should not be unduly relied upon. These statements speak only as of the date of the MD&A contained in this Annual Report. CHD does not intend, and does not assume any obligation, to update these forward-looking statements.

BUSINESS OF CANADIAN HYDRO DEVELOPERS, INC. (THE "COMPANY" OR "CHD")

CHD is a developer, owner and operator of 14 generating facilities: 10 "run of river" hydroelectric plants, three

wind plants and one natural gas-fired plant, totalling 103.9 MW net to the Company's interest. In addition, the Grande Prairie EcoPower® Centre, the Pingston Expansion and Upper Mamquam Hydroelectric Projects, and the Taylor Wind Project are currently under construction and approximately 298 MW are in various stages of permitting for construction in the next four years. The Company's plants and projects are located in British Columbia, Alberta, and Ontario. All of CHD's wind and water plants are certified under the EcoLogo^M program.

VISION, CORE BUSINESS AND STRATEGY

The Company's vision is to be the premier independent producer of green power in Canada focusing on environmental stewardship and growth, empowering employees, and providing attractive returns to investors. This is a 10 year vision and was set in early 2002.

CHD is the only company in Canada that provides a diversified suite of EcoLogo^M certified, low-impact, renewable power from economic projects. The Company wants to capitalize on the demand for green power and the economics that present themselves today, while encouraging an entrepreneurial spirit and ensuring its future. CHD's five year goal, which was set in early 2002, is to exit 2006 with 300 MW of green power plants in production and have an inventory of active prospects of at least 500 MW to foster future growth.

KEY PERFORMANCE DRIVERS

CHD believes the following key performance drivers are critical in creating value for the Company's investors:

- Price of power and liquidity of market, which is driven by growth of population and economy, as well as the price of fossil fuels, particularly, natural gas.
- Trend towards concern for the environment and environmental stewardship, which drives demand for low-impact, renewable power.
- Interest rates and access to equity, which affect the cost of capital and economic rate of return on power plants.
- Weather, which impacts both hydroelectric and wind generation, as well as the overall demand for power.
- Effect of non-market forces such as government incentives for renewable energy, regulatory changes, and the Kyoto Protocol, which create market uncertainty, and affect the ability to operate, as well as the economic rate of return on power plants.
- Reputation, which drives ability to access capital.

There are several key performance measures the Company uses to monitor and assess its performance relative to the key performance drivers, the implementation of its strategy, and the achievement of its goals and vision. The main performance measures are as follows:

- Economic rate of return on power plants. This is defined as the unlevered, pre-tax rate of return on individual power plants above a certain hurdle rate set by CHD, which rate is not disclosed for competitive reasons.
- Return on average capital employed ("ROACE"). This is defined as the ratio of earnings before income taxes, interest on debt, amortization, stock compensation expense, prospect development costs, and impairment of assets to average capital assets, excluding construction-in-progress. CHD targets a 10-15% ROACE depending upon the year and when projects under construction are anticipated to be operational.
- Mixture of debt and equity. The Company currently targets a 60/40 debt/equity mixture, which it believes is an appropriate mix given the current economic conditions in Canada, the growth phase of the Company, and the long-term nature of CHD's assets.
- Installed MW capacity growth. This is defined as installed megawatts in operation at year end compared to the previous year. While annual growth is important and targets are set for each year, the five year goal of 300 MW is the Company's focus.
- Generation growth. This is defined as the increase in megawatt hours of electricity production in the current year compared to the prior year. In conjunction with MW capacity growth, the Company sets production targets for each year.
- Percentage of generation under long-term contract. This is defined as the percentage of total electrical generation subject to contracts having an initial term of at least five years, and the purchaser of the power having an acceptable financial rating. The Company currently targets 75% of generation under long-term contract, which ensures steady, predictable, and long-term cash flow.

- Active prospects. This is defined as new projects that, generally, meet the Company's evaluation criteria of being Clean, Simple & Sound®. While no annual targets are set, the Company has a five year goal of 500 MW of active prospects.
- Technological and geographical diversification. By having an appropriate mix of low-impact, renewable power plants (e.g. hydroelectric, wind, and biomass), located in different parts of the country (i.e. B.C., Alberta and Ontario), CHD reduces its exposure to large overall variations in power generation.
- The Company has developed a "non-market forces" plan to ensure potential changes to regulations and laws that affect the power industry are known, understood, and managed to the extent possible. This plan also focuses the Company on the promotion of renewable energy with various levels of government.
- Environmental stewardship and safety. The Company has an environment, health and safety management policy, which is disclosed earlier in the Annual Report. Targets and objectives are set within that policy.

CAPABILITY TO DELIVER RESULTS

Non-Capital Resources

Employees are the most critical non-capital resource required in order for the Company to achieve its goals set out in the strategic plan. A formal human resource plan has been developed in order to ensure the Company focuses on improving and maintaining its employee morale. As part of this plan, CHD has assessed its staffing levels in 2002 and 2003, including an analysis to determine if levels are adequate and accountabilities are assigned. In addition, a succession plan has been developed should a key employee retire or leave the Company. While the Company plans to hire additional employees for the management of large new construction projects and the operation of new power plants, CHD believes it has sufficient human resources to execute its strategic plan.

Capital Resources

The Company has the necessary working capital to meet its current obligations and commitments, and has no off-balance sheet financing arrangements. The Company raised additional debt and equity in 2003 in order to fully fund its projects currently under construction. In order to finance future projects and development costs, CHD anticipates obtaining financing through a combination of working capital, cash flow from operations, new debt facilities, and new equity issuances. Due to the long-term nature of its assets and stable cash-flow due to long-term contracts for the majority of its generation, the Company believes that it must provide an annual 10-15% ROACE in order to be financially accretive for shareholders, and to minimize CHD's cost of capital.

Systems and Processes

The Company's operational systems and processes were reviewed in 2002 in light of the strategic plan. Several modifications were made with regards to compensation systems, risk management systems, the evaluation criteria for new projects, management of projects under construction, and the implementation of a new integrated scheduling and e-mail system to facilitate communications. The Company periodically evaluates existing systems and develops new ones as needed. CHD believes it has sufficient systems and processes in place to execute its strategic plan.

OVERALL PERFORMANCE

A year of continued growth was experienced by the Company: from record revenue, cash flow from operations and generation over the previous year's record generation, to the start of operations at the Pingston Hydroelectric Plant, and the commencement of construction on the Pingston Expansion and Upper Mamquam Hydroelectric Projects and the Grande Prairie EcoPower® Centre. Generation increased in B.C. and Ontario resulting from the start-up of the Pingston Hydroelectric Plant on May 8, 2003 and improved water levels in 2003. Alberta wind operations experienced consistent year-over-year generation, while Alberta hydroelectric operations experienced lower water levels in 2003 compared to the previous year, which resulted in lower generation. Higher Power Pool of Alberta ("Pool") prices, combined with record generation and a provision for impairment of assets taken in 2002 (see 'Impairment of Assets' below), resulted in improved financial performance for the Company in 2003 compared to prior year.

The Company's financial condition improved in 2003 compared to 2002 as a result of the record year of

operations, as described above, and the issuance 16.22 million shares at a price of $1.85 for gross proceeds of $30,007,000 ($28,889,205 net), offset partially by capital asset additions of $22,343,822 and prospect development costs of $1,115,297 (2002 - $2,885,700). Capital asset additions related to costs incurred for the completion of the Pingston Hydroelectric Plant (15 MW net), and the commencement of construction on the Grande Prairie EcoPower® Centre (25 MW), the Pingston Expansion (7.5 MW net) and Upper Mamquam (25 MW) Hydroelectric Projects. Prospect development costs related primarily to regulatory hearing and other costs for the Dunvegan Hydroelectric Prospect (see Note 4 to the audited consolidated financial statements). The Taylor Wind Project (3.4 MW), and the Pingston Expansion and Upper Mamquam Hydroelectric Projects were transferred to construction-in-progress during the year.

In addition to certain risks, which are explained in the 'Risk Factors' below, the following items impact CHD's business:

Seasonality and Cyclicality

The Company's business is cyclical due to the nature of electricity, which cannot be stored and the price of which fluctuates based on supply and demand, as well as, the price of natural gas, particularly in Alberta. Weather impacts CHD's business due to its use of wind and water resources for the majority of its electrical generation. The Company reduces its exposure to industry cycles by entering into long-term contracts for five years or greater for a minimum of 75% of its generation. Approximately 85% of the Company's power generation was sold under long-term contracts during 2003, which reduced the Company's exposure to variable spot prices. CHD estimates that every $10/MWh change in average Pool price for 2004 will have a $0.01/share (diluted) impact on net earnings, assuming no additional issuances of equity during 2004. The Company reduces its exposure to any one natural resource in any one region through technological and geographical diversification.

In 2004, fluctuations in spot market prices will affect revenues for the Drywood Plant (6 MW), the Taylor Hydroelectric Plant (6.5 MW net) and approximately 50% of the Cowley North and Sinnott Wind Plants (26 MW), which sell their power on the spot market. Taylor only operates during the irrigation season in Alberta, which typically runs from May through September.

Because the Company's operations are based mainly on power generation from wind and water resources, CHD's financial results in one quarter may not be representative of all quarters. The Company's hydroelectric plants located in B.C. and Alberta (39.6 MW), typically have higher revenue during the second and third quarters due to higher water levels at the plants that operate all year, as well as the spring start up of the Belly River and Taylor Hydroelectric Plants that are located on irrigation works. The hydroelectric plants located in Ontario (10.9 MW) typically have higher revenue during the first and fourth quarters due to higher water levels during the winter in Ontario and higher contract prices during the October - March period annually. CHD's wind generation plants (47.4 MW) typically have higher revenue in the first and fourth quarters, during the "windy season", however, these plants do not generate as much power as the Company's hydroelectric facilities. While geographical and technological diversification results in smaller quarterly fluctuations in financial results, management expects financial results from the second and third quarters to be higher than those from the first and fourth quarters for 2004.

Trends and Outlook

The commissioning of the $4.3 million (net) Pingston Expansion Hydroelectric and the $2.1 million Taylor Wind Projects, which is anticipated to be in the second and fourth quarters of 2004, respectively, is expected to positively impact the Company's financial results for 2004. The $56.3 million Grande Prairie EcoPower® Centre is expected to achieve commercial operations by the end of 2004. The $34.1 million Upper Mamquam Hydroelectric Project is expected to achieve commercial operations in the second quarter of 2005. The Company has an installed capacity growth target of 32.5 MW in 2004, and 22,000 MWh of generation growth target in 2004 over 2003, resulting from the start-up of Pingston Expansion and Taylor Wind in the second and fourth quarters of 2004, respectively, and the Grande Prairie EcoPower® Centre achieving commercial operations at the end of 2004.

While reservoir levels are below normal due to the dry summer in 2003, snow packs and precipitation in B.C. and Alberta are currently higher than historical averages. These early indications of improved snow packs and precipitation are expected to recharge reservoir levels in Alberta. Since the Company's B.C. plants are primarily glacier fed, generation in 2003 was not affected by low snow packs from the previous winter. Should the summer of 2004 be more moderate in temperature, higher snow packs and precipitation this winter will assist in keeping water levels consistent with those of the prior year. Ontario is currently having a wet winter, which has resulted in higher generation so far this winter compared to the prior winter. However, it is too early to determine whether this will positively impact on hydroelectric generation in Ontario for all of 2004.

Pool prices improved significantly in 2003 ($63/MWh) compared to 2002 ($44/MWh) due to natural gas supply tightening and demand improving, resulting in higher natural gas and power prices. The average Pool price for January 2004 was $57/MWh, compared to $44/MWh for December 2003, and $81/MWh for the month of January 2003. The average forward Pool price for February and March 2004 on the Alberta electricity forwards market is $44/MWh (February and March 2003 - $69/MWh), and $54/MWh (2003 - $55/MWh) for the remainder of 2004.

Current Market and Industry Outlook

The long-term fundamentals in Alberta continue to require significant additional power generation in the coming years. The improved power price environment in 2003 provided the Company the opportunity to secure a significant long-term contract for the sale of electricity from its Grande Prairie EcoPower® Centre and may continue to provide opportunity to CHD to obtain long-term contracts for the sale of its electricity from its existing merchant plants and new plants under development. With the federal government wind incentive of $10/MWh for 10 years for qualifying wind projects, management is focusing its short-term development plans in Alberta on wind generation, while continuing its long-term plans on hydroelectric and biomass generation.

In addition, Alberta is in the process of enacting legislation to support the planning and pre-building of much needed transmission capacity that will make it easier to transport power throughout the province and for export. Included in this legislation is a shift of transmission cost responsibility from generators to consumers. Should these expected changes be enacted, the Company's operating costs would decrease as transmission costs are currently being paid for the Taylor Hydroelectric, Cowley North Wind and Drywood Plants.

The potential for new projects in British Columbia has been enhanced by the recent commitment of BC Hydro to obtain 10% of any new load growth from "green" sources. The Company has 20 year contracts with BC Hydro for the purchase of power and green attributes from two of its projects, Pingston and Upper Mamquam Hydroelectric Plants. The Company is actively developing new hydroelectric projects in B.C. due to this policy initiative.

The Ontario electricity market remains uncertain since deregulation occurred on May 1, 2002 due to price caps and other intervention measures introduced by the Ontario government later that year. However, the new Ontario government has raised the price cap and is planning initiatives for the support of green power, including the offering of long-term contracts and a renewable portfolio standard, whereby all marketers of power would be required to procure a certain percentage of their electricity from green sources. At the present time, the Company's only plans in Ontario relate to the Otonabee Hydroelectric Project, where an option agreement has been entered into with an Ontario developer to sell this project. The Company is hopeful that the new Ontario government will follow through on the aforementioned initiatives, which will reduce uncertainty for the development of green power projects, and is optimistic about expanding its presence in the Ontario market.

CHD is constantly investigating new opportunities primarily in Canada as the electrical industry becomes deregulated and/or openly competitive. The Company's primary objective is to consolidate its position as the leader in low-impact electrical generation in Canada.

Governmental and Environmental Regulation

CHD maintains an insurance program consistent with

SELECTED FINANCIAL INFORMATION	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Revenue	$21,662,409	$16,795,608	$15,608,120
Cash flow from operations	8,854,648	6,152,123	5,649,434
Net earnings (loss)	3,087,419	(3,366,592)	3,700,547
Per share (basic)	0.05	(0.07)	0.10
Per share (diluted)	0.05	(0.07)	0.09
Total assets	193,310,972	164,432,966	140,650,955
Other liabilities	1,061,469		10,071,759
Long term debt (excluding current portion)	61,798,742	66,910,572	40,779,754
Total long term financial liabilities	62,860,211	66,910,572	50,851,513

industry practice to protect against losses due to accidental destruction of assets, pollution and business interruptions. The Company employs an environment, health and safety program and maintains operational plans for all of its plants to deal with environmental matters. CHD does incur ongoing costs associated with environmental protection requirements on operational plants, which are charged to operating costs as incurred. These costs, however, are nominal.

The majority of financial costs associated with environmental protection requirements are incurred by the Company at the development and construction phases of a power project. Therefore, these costs are capitalized to the project and amortized once the project is operational or are charged to earnings if the project does not go ahead. These costs will vary from project to project; however, in order for management to proceed with any project, it must support a pre-determined return on the capital costs invested, including capitalized environmental protection costs.

Due to the innovative nature of many of CHD's projects, regulatory review can take longer than for more routine projects. This longer review period can lead to higher costs of development compared to other technologies. This can affect the Company's competitive position when equated to entities which produce energy from non-renewable sources.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements for the three most recently completed financial years is set forth above and is prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

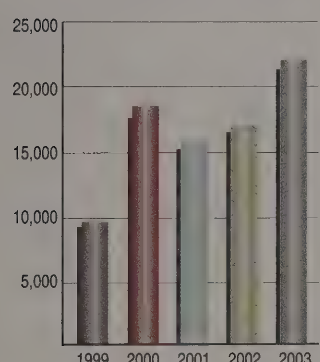
Over the past three years, the Company has increased its generation from 245,113 MWh in 2001 to 293,881 MWh in 2002 and 360,007 MWh in 2003. During these periods, net installed capacity has increased from 88.9 MW in 2001 to 103.9 MW in 2003. The increase in capacity and, therefore, generation has been accomplished by the commencement of operations of the Cowley North (19.5 MW) and Sinnott (6.5 MW) Wind Plants in September 2001 and the Pingston Hydroelectric Plant in May 2003.

Revenue increased steadily over the past three years, primarily as a result of newly installed capacity, as described above, and offset partially in 2002 by low Pool prices received by CHD's merchant plants. The average price received by the Company for electricity

from all operations in 2003 was $60/MWh compared to $57/MWh in 2002 and $64/MWh in 2001.

While these factors had an overall positive impact on period over period financial results, the following increases had a negative impact: debt to finance new plants, amortization on these new plants, administration costs to support increased operations and marketing efforts, and income taxes resulting from increased profitability and corporate income tax rates in Ontario. A provision for impairment of assets taken in 2002 (see 'Impairment of Assets' below) also contributed towards the improvement to financial results from 2002 to 2003. Equity was issued in 2003 to finance projects currently under construction and, thus did not generate earnings in 2003. This resulted in net earnings per share being comparatively lower in 2003 than 2001.

Revenue - (in $000's)



RESULTS OF OPERATIONS

Revenue

Revenue in 2003 increased 29% to $21,662,409 compared to $16,795,608 in 2002 on generation of 360,007 MWh in 2003 compared to 293,881 MWh in 2002. The increase in revenue was primarily due to:

- Higher hydroelectric generation in B.C. (2003 - 114,040 MWh; 2002 - 48,238 MWh) and Ontario (2003 - 70,372 MWh; 2002 - 63,953 MWh) resulting from the start-up of the Pingston Hydroelectric Plant on May 8, 2003, increased glacial melt in B.C. resulting from a very hot summer, and wetter conditions in the second half of the year in Ontario; and
- 42% higher average Pool prices received on the Company's generation exposed to the Pool in 2003 compared to 2002 (2003 - $61/MWh; 2002 - $43/MWh);

offset partially by:

- Lower hydroelectric generation in Alberta (2003 - 56,373 MWh; 2002 - 63,030 MWh) resulting from lower water levels due to the hot and dry summer.

Approximately 85% of the Company's generation was sold pursuant to long-term sales contracts in 2003 (2002 - 82%), which exceeds CHD's minimum stated target of 75% of generation under long-term contracts. The average price received by the Company for electricity from all operations for 2003 was $60/MWh compared to $57/MWh in 2002.

Operating Expenses

Operating expenses decreased 2% to $4,896,725 in 2003 compared to $4,992,097 in 2002. Gross margins (revenue less operating expenses; expressed as a percentage of revenue) improved to 77% in 2003 (2002 - 70%). The decrease in operating expenses and corresponding increase in gross margins was due primarily to higher revenues over primarily fixed operating costs, as well as lower major maintenance expenses incurred in 2003.

Amortization Expense

Amortization expense increased 14% to $3,970,638 in 2003 (2002 - $3,482,358) due to the addition of the Pingston Hydroelectric Plant on May 8, 2003, which is amortized over a 40 year period.

Interest on Debt, Long-Term Debt and Revolving Construction Lines of Credit

Interest on debt (excluding capitalized interest) in 2003 increased 64% to $4,682,938 compared to $2,853,366 in 2002. The increase in interest expense was due to higher long-term debt resulting from the start-up of the Pingston Hydroelectric Plant in May 2003, as well as the restructured debt financing, which closed on December 19, 2002.

Capitalized interest associated with construction-in-progress in 2003 was $608,000 compared to $1,258,000 in 2002. The decrease was due to the completion of the Pingston Hydroelectric Plant on May 8, 2003, as well as no amount being drawn on the new construction lines of credit (the "Construction Lines") during 2003.

Long-term debt (including current portion) as at December 31, 2003 was $66,910,518 compared to $71,907,189 as at December 31, 2002. The decrease was due to regular repayments on long-term debt. The Company's debt/equity ratio was 39/61 (2002 - 50/50), well below its stated target of 60/40. The debt/equity ratio will improve towards its target once the Construction Lines are drawn.

On June 27, 2003, the Company arranged for Construction Lines in the amount of $59,400,000, which are described in Note 6(b) to the audited consolidated financial statements. The Construction Lines will be used to assist in capital expenditures to construct the Grande Prairie EcoPower® Centre, Pingston Expansion and Upper Mamquam Hydroelectric Projects.

Administration Expense

Administration expense increased 26% to $2,408,884 in 2003 compared to $1,913,747 in 2002. The increase was due primarily to the Company expensing $115,037 for the fair value of stock options granted in 2003, as recommended by the Canadian Institute of Chartered Accountants (the "CICA"), as well as increased costs associated with increased operations and marketing efforts. Included in administration expense are legal costs of $280,100 (2002 - $251,215) associated with the First Canadian Electric Inc. ("FCE") dispute (as described in Note 5 to the audited consolidated financial statements). This dispute was resolved on December 31, 2003, therefore, no material associated ongoing costs are expected. Capitalized administration costs associated with construction-in-progress in 2003 were $608,826 compared to $473,612 in 2002. The increase was due to the Grande Prairie EcoPower® Centre, Pingston Expansion and Upper Mamquam Hydroelectric Projects and Taylor Wind Project being under construction in 2003 compared to only two projects in 2002.

Prospect Development Costs

As initial site investigations and project economics did not justify the Company pursuing certain prospective projects, $30,421 in prospect development costs were written off during 2003 (2002 - $123,826).

Impairment of Assets

No impairment of assets was recorded for the year ended December 31, 2003.

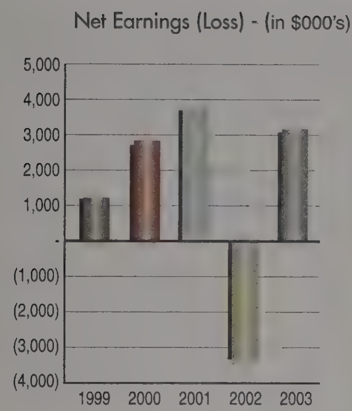
At December 31, 2002, the Company reviewed the net recoverable value of the Drywood Plant as a result of the following:

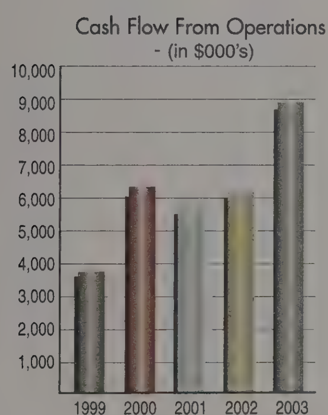
- The significant decrease in Pool prices in 2002 and their impact on this merchant plant;
- The temporary shutdown of the plant since July 2002 due to low spark spreads and Pool prices;
- CHD's strategic planning process that had determined that natural gas fired technology does not fit with its focus on environmentally-friendly, low to zero fuel cost input, long-life plants; and
- Due to the plant being a non-core asset, plans for the Company to eventually divest of this plant.

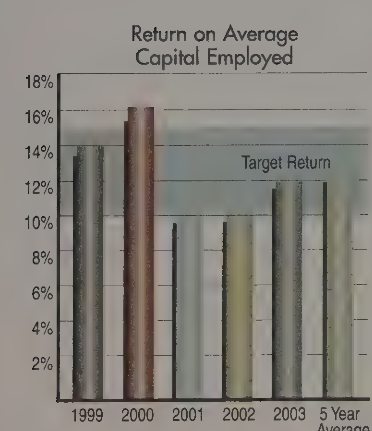
CHD used the estimated future undiscounted cash flows for the Drywood Plant, which were prepared by an independent firm of engineers, and adjusted these cash flows based on the Company's plans to eventually sell the plant in order to estimate its value as of December 31, 2002. Based on this estimate of value, in light of the above considerations, the Drywood Plant was written down to its net recoverable value.

In addition, amounts receivable associated with the FCE dispute were written off and provided for at December 31, 2002 (as described in Note 5 to the audited consolidated financial statements). This matter was resolved on December 31, 2003.

The total provision for impairment of assets was $8,200,000, which reduced net earnings per share by $0.11 (diluted) in 2002. Net earnings per share would have been $0.04 per share (diluted) in 2002, had this provision not been taken. This provision had no impact on cash flow from operations in 2002.







Taxes

CHD has available tax pools of $126.1 million (2002 - $103.7 million) compared to book assets of $174.6 million (2002 - $150.3 million). The Company does not anticipate paying cash income taxes for several years, other than in respect of the Cowley Ridge Wind Plant, through its wholly owned subsidiary, Cowley Ridge Wind Power Inc. However, the Company is liable for the Federal Tax on Large Corporations and Ontario Provincial Capital Taxes, which comprise the current tax provision.

Cowley Ridge Wind Power Inc. is fully taxable, but is entitled to recover approximately 175% of cash taxes paid annually (limited to 15% of eligible gross revenue) in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act. This Regulation will apply until the associated power sale agreements expire in 2013 (9.0 MW) and 2014 (9.9 MW).

In 2003, future income tax expense was $1,658,482, compared to a future income tax recovery of $2,287,469 in 2002. This increase was due primarily to the tax impact of the impairment of assets in the previous year, and an 8% increase in the Ontario corporate income tax rate in November 2003, which decreased net earnings by $264,516 in 2003.

Net Earnings (Loss) and Cash Flow from Operations

In 2003, net earnings were $3,087,419 ($0.05 per share, diluted) compared to a net loss of $3,366,592 (($0.07) per share, diluted) in 2002. The increase in net earnings was due to the provision for impairment of assets taken in 2002, combined with a higher average price received on electricity generation, lower operating expenses and prospect development costs written-off, offset partially by increased interest on debt, amortization, administration expense and taxes in 2003 compared to 2002, as described above. The increase in net earnings on a diluted per share basis was due to the increase in earnings; offset partially by the issuance of equity during the year, the proceeds of which are currently being used to finance the construction of new projects.

ROACE	2003 $	2002 $
Cash flow from operations	8,854,648	6,152,123
Add:		
Current Income tax expense	926,902	884,275
Interest on debt	4,682,938	2,853,366
Return	14,464,488	9,889,764
Capital assets, beginning of year	144,198,338	131,867,137
Add:		
Capital assets, end of year	168,136,446	144,198,338
Subtract:		
Construction-in-progress, beginning of year	44,436,364	22,457,002
Construction-in-progress, end of year	35,318,518	44,436,364
	232,579,902	209,172,109
Divide by	2	2
Divide by: average capital employed	116,289,951	104,586,055
ROACE	12%	10%

Cash flow from operations in 2003 increased 44% to $8,854,648 from $6,152,123 in 2002. The increase was due to a higher average price received on record electricity generation and lower operating expenses; offset partially by increased interest on debt, administrative expenses, and taxes, as described above.

The ROACE for 2003 increased to 12% from 10% in 2002, which is in-line with CHD's stated target of 10%-15%. The Company expects ROACE to remain relatively flat in 2004 due to the lower outlook for Pool prices (see 'Trends and Outlook' above), notwithstanding the full year of operations of the Pingston Hydroelectric Plant and the anticipated addition of the Pingston Expansion Hydroelectric and Taylor Wind Projects during the second and fourth quarters of 2004, respectively.

ROACE is provided to assist investors in understanding one of the main performance measures the Company uses to monitor and assess its performance. This measure does not have any meaning prescribed in GAAP and may not be comparable to similar measures presented by other companies. ROACE for 2003 and 2002 is calculated as in the above table:

Capital Asset Additions and Prospect Development Costs

Capital asset additions were $22,343,822 in 2003 (2002 - $28,093,696), resulting in a 13% increase in the net book value of capital assets. These significant investment activities relate to construction costs and equipment purchases incurred for the completion of the Pingston Hydroelectric Plant, and the commencement of construction of the Grande Prairie EcoPower® Centre, the Pingston Expansion and Upper Mamquam Hydroelectric Projects. Prospect development costs were $1,115,297 in 2003 (2002 - $2,885,700), relating primarily to regulatory hearing and other costs for the Dunvegan Hydroelectric Prospect (see Note 4 to the audited consolidated financial statements); the Taylor Wind Project and the Pingston Expansion and Upper Mamquam Hydroelectric Projects, which were transferred to construction-in-progress during the year.

Capital Resources and Liquidity

The Company issued 16,220,000 common shares at a price of $1.85 per share for gross proceeds of $30,007,000 ($28,889,205 net) through the filing of a short-form prospectus, which closed on July 11, 2003

Summary of Quarterly Results	Financial Quarter Ended (Unaudited)			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenue	$5,719,083	$6,386,408	$5,432,157	$4,124,761
Cash flow from operations	2,031,930	3,266,945	2,319,668	1,236,105
Net earnings	416,896	1,481,048	864,595	325,108
Per share (basic and diluted)	0.01	0.02	0.02	0.01

	Financial Quarter Ended (Unaudited)			
	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002
Revenue	$4,478,501	$3,894,537	$4,799,187	$3,623,383
Cash flow from operations	1,517,250	1,257,688	1,930,963	1,446,222
Net (loss) earnings	(5,023,054)	277,885	948,595	429,982
Per share (basic and diluted)	(0.10)	0.01	0.02	0.01

(see Note 7 to the audited consolidated financial statements). The proceeds from this offering are expected to be used as follows and are unchanged from the final prospectus:

	$
Upper Mamquam Hydroelectric Project	14,000,000
Pingston Expansion Hydroelectric Project	2,000,000
Development of prospects and general corporate purposes	12,889,205
Net proceeds from share issuance	28,889,205

In addition to this share issuance, 75,000 stock options were exercised for proceeds of $115,250 during 2003.

The Company's current capital expenditure plans total approximately $96,800,000 and are comprised of the Grande Prairie EcoPower® Centre, the Pingston Expansion and Upper Mamquam Hydroelectric Projects, and the Taylor Wind Project. At December 31, 2003, $35,318,518 has been spent on these projects and is included in capital assets as construction-in-progress (see Note 3 to the audited consolidated financial statements). The remaining $61,481,482 of capital expenditures will be financed through new Construction Lines in the amount of $59,400,000 (see note 6(b) to the audited consolidated financial statements), and a combination of working capital and cash flow in the amount of $2,081,482. CHD anticipates funding any additional planned growth through a combination of working capital, cash flow from operations, new debt facilities and equity issuances (see 'Additional Financing' under 'Risk Factors' below).

SUMMARY OF QUARTERLY RESULTS

As discussed in 'Seasonality and Cyclicality' above, variations over the quarters are due in part to the cyclical nature of electricity prices and the Company's power plants, which are subject to seasonality associated with wind and water resources. Improved quarterly results in 2003 were partly due to 42% higher Pool prices received on the Company's generation exposed to the Pool. In May 2003, the Pingston Hydroelectric Plant achieved commercial operations, which improved quarter over quarter results in 2003 compared to 2002. While geographical and technological diversification results in smaller quarterly fluctuations in financial results, the addition of the Pingston Hydroelectric Plant changed the variation of quarterly financial results from the second and fourth quarters being higher than those from the first and third quarters in 2002 to the second and third quarters being higher than those from the first and fourth

CONTRACTUAL OBLIGATIONS	Total $	2004 $	2005-2006 $	2007-2008 $	Thereafter $
Long-term debt	66,910,518	5,111,776	10,620,915	11,252,205	39,925,622
Other liabilities	1,061,469	-	1,061,469	-	-
Purchase obligations	14,300,000	14,300,000	-	-	-
Total contractual obligations	82,271,987	19,411,776	11,682,384	11,252,205	39,925,622

quarter in 2003. A one-time provision for impairment of assets taken in the fourth quarter of 2002 (see 'Impairment of Assets' above), resulted in improved financial performance for the Company in the fourth quarter of 2003 compared to same period in the prior year.

FOURTH QUARTER

Financial results for the fourth quarter ended December 31, 2003 ("Q4 2003") improved significantly over Q4 2002 due primarily to the following:

- Generation increased 35% to 92,953 MWh in Q4 2003 (Q4 2002 - 68,738 MWh) due to the addition of the Pingston Hydroelectric Plant and an extremely wet quarter in Ontario;
- A provision for impairment of assets taken in Q4 2002 (see 'Impairment of Assets' above); and
- Lower prospect development costs written off (Q4 2003 - $30,421; Q4 2002 - $123,826)
offset partially by:
- Lower average prices received by the Company for electricity from all operations (Q4 2003 - $62/ MWh; Q4 2002 - $65/MWh) resulting from lower Pool prices in the quarter;
- Increased interest on debt due to increased long-term debt resulting from the restructured debt financing, which closed on December 19, 2002;
- Increased amortization expense due to the Pingston Hydroelectric Plant achieving commercial operations; and
- Increased administrative expense to support increased operations and marketing efforts, legal costs, and the expensing of stock options in Q4 2003, as recommended by the CICA.

CONTRACTUAL OBLIGATIONS

At December 31, 2003, the Company had the following contractual obligations:

Long-term debt obligations are described in Note 6 to the audited consolidated financial statements.

Other liabilities are described in Note 13(b) to the audited consolidated financial statements.

Purchase obligations are described in Note 14(b) to the audited consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2003 and 2002, the Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In connection with the 1989 acquisition of a former subsidiary and as payment for certain engineering services in the normal course of business, gross overriding royalties ranging from 1% - 2% are payable by the Company on electric energy sales on certain of CHD's hydroelectric plants to a company controlled by J. Ross Keating, President, Chief Operating Officer and a director of the Company. During the year, royalties totalling $61,292 (2002 - $59,293) were incurred with $1,829 (2002 - $7,466) payable at year end.

PROPOSED TRANSACTIONS

The Company currently has no proposed asset or business acquisition or disposition transactions.

CRITICAL ACCOUNTING ESTIMATES

An accounting estimate is considered critical only if it requires the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates the Company could have used would have a material impact on CHD's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with GAAP, the following critical accounting estimates have been identified by management:

Dunvegan Hydroelectric Prospect

At December 31, 2003, the Company had incurred $5,568,246 in prospect development costs related to Dunvegan Hydroelectric Prospect. In March 2003, the Company received an unfavourable regulatory decision for this prospect. The Company has chosen to reapply to regulators for the approval of the prospect utilizing the information previously filed along with considerable new evidence obtained since the original hearing in 2002. Management anticipates requesting a hearing date of late spring 2005 from the regulators, and anticipates a decision will be rendered in late 2005. Management is optimistic that this formal process will result in a positive change to the original decision. However, there can be no assurance that regulatory approvals for this prospect will be obtained. Should the Company not be successful in obtaining regulatory approvals, the prospect would likely be abandoned and the related prospect development costs would be written off.

Ragged Chute Hydroelectric Plant

CHD has a sub-lease agreement (the "Sub-Lease") with Ontario Power Generation ("OPG") for the 6.6 MW Ragged Chute Hydroelectric Plant (the "Plant") that expires on June 30, 2004. The Company is currently in discussions with OPG with respect to a renewal of the Sub-Lease (the "Renewal"). While management is optimistic these discussions will lead to the Renewal, there can be no assurance that the Renewal will be granted. Should the Renewal not be granted, the Company may be required to provide OPG with vacant possession of the Plant on June 30, 2004. Were this to occur, the net book value of the Plant of $10,068,540 at December 31, 2003 would be written off and the Company would pursue all legal remedies available.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In November 2003, the CICA amended its accounting guideline on hedging relationships, which was originally issued in November 2002. The guideline establishes certain conditions where hedge accounting may be applied. It is effective for years beginning on or after July 1, 2003. The Company expects all criteria to be met for all hedging relationships in place at December 31, 2003 with the exception of one contract (see Note 13(b) to the audited consolidated financial statements). To support its obligations under a guarantee to a third party (the "Guarantee"), the Company entered into a contract (the "Contract") with another party whereby the other party will pay the Pool price to the Company in return for the Company paying the other party a fixed price for approximately 5 MW of electricity per year for three years commencing April 1, 2003. The Company currently uses hedge accounting for the Contract, however, it does not meet all of the criteria for hedge accounting as set out under the new guideline. Because of this, CHD expects to discontinue using hedge accounting for this contract in 2004. Accordingly, any payments received from or made to the other party in connection with the Contract will be recognized into or charged against income, the Contract will be fair valued on January 1, 2004, with the initial amount being amortized over the life of the Guarantee, and any future changes in the fair value will be recognized into or charged against income. Had the Company early adopted this guideline, net earnings before taxes and construction-in-progress would have increased by $369,722. The fair value of the Contract at December 31, 2003 would result in a gain of $407,772. Fair value was determined by taking the difference between the fixed purchase price for electricity and the forward market selling price for electricity and multiplying this by the remaining notional amount of generation under the Contract.

Effective December 31, 2003, the Company early adopted the new standard for accounting for asset

retirement obligations recommended by the CICA as described in Note 2(a) to the audited consolidated financial statements. The Company has legal obligations to restore the sites of its generating plants to their original condition. The fair value of the asset retirement obligation for the Company's hydroelectric plants and wind plants cannot be reasonably estimated due to the extremely long life of these assets and the unlikelihood that these sites would ever be abandoned due to the renewable nature of the electrical energy being generated. The estimated fair value of the asset retirement obligation for the Company's natural gas plant is nominal. Accordingly, no provision has been made for the asset retirement obligation.

Effective December 31, 2003, the Company early adopted the new standard for impairment of long-lived assets recommended by the CICA as described in Note 2(b) to the audited consolidated financial statements. The application of this standard retroactively to January 1, 2003, had no impact on the Company's consolidated financial statements.

Effective January 1, 2003, the Company elected to prospectively adopt the fair value method of accounting for options granted subsequent to January 1, 2003 under its stock-based compensation plan recommended by the CICA as described in Note 2(c) to the audited consolidated financial statements. The impact of adopting this principle is described in Note 7(d) to the audited consolidated financial statements.

Effective January 1, 2002, the Company prospectively adopted the new standard for the presentation of callable debt obligations recommended by the CICA as described in Note 2(d) to the audited consolidated financial statements. As at December 31, 2003 and 2002, there is no impact of the new standard on the consolidated financial statements.

FINANCIAL INSTRUMENTS

The Company has a risk management policy that is approved annually by the Board of Directors. The Company's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any significant risks associated with business activities. The Company may use from time to time derivative financial instruments to manage or hedge commodity price, interest rate, and foreign currency risks. Use of derivatives on a speculative or non-hedged basis is specifically disallowed. Authorization levels for the execution of derivatives for hedging purposes have been set by the Board of Directors and are reviewed quarterly by the Audit Committee.

For the year ended December 31, 2003, in addition to the financial instrument discussed in 'Impact of New Accounting Pronouncements' above, the Company had the following financial instruments in place to manage risk:

Interest Rate Swap

Upon inception of CHD's revolving reducing loan (the "Loan") on December 19, 2002 (see Note 6 to the audited consolidated financial statements), the Company entered into an interest rate swap arrangement to fix the interest rate at 6.77% per annum on 100% of the Loan for the first five years and 50% of the Loan in years six through 10. At December 31, 2003, the fair value of the interest rate swap was ($910,330) (2002 - ($1,078,176)). Fair value was determined by present valuing the future interest payments on the Loan using the difference between the fixed interest rate of 6.77% per annum and the variable interest rate of 5.25% per annum were the swap not in place, as the discount rate. The purpose of this swap is to reduce CHD's exposure to changes in variable interest rates.

Contracts for Differences

The Company has entered into various contracts (the "CFDs") with other parties whereby the other parties will pay a fixed price to the Company in return for the Company paying the other party the average monthly Pool price for approximately 135,300 MWh per year up to 147,000 MWh per year of electricity (see Note 14(d) to the audited consolidated financial statements). The CFDs mature from 2007 to 2024. While the CFDs do not create any obligation by the Company for the physical delivery of electricity to the other party, management believes it has sufficient electrical generation, which is not subject to contract, to satisfy the CFDs. The Company is unable to fair value one of the CFDs

because the CFD price includes the sale of Renewable Energy Certificates ("RECs") along with the settlement to the average monthly Pool price. At December 31, 2003, the fair value of the remaining CFDs would result in a gain of $12,345,550. Fair value was determined by taking the difference between the fixed purchase price for electricity and the forward market selling price for electricity and multiplying this by the remaining notional amount of generation under the CFDs. As there was no forward market price for electricity past 2006, due to the illiquidity of the forward market, the 2006 forward market price for electricity was used for 2007 onwards, discounted at 5%, in calculating fair value.

OUTSTANDING SHARE DATA

	As at February 16, 2004 (unaudited)
Basic common shares	68,910,539
Convertible securities:	
Warrants	5,422,222
Options	4,195,000
	9,617,222
Fully diluted common shares	78,527,761

RISK FACTORS

Risk factors associated with the development and operation of power generation plants relate to environmental concerns, business factors, and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated.

Environmental

The Company's hydroelectric plants are subject to variations in precipitation and in the flow of the watersheds upon which such plants are situated and the Company's wind plants are subject to variations in wind. CHD operates in three distinct regions of Canada as part of its strategy to diversify geographically since there is always the risk of prolonged drought in any one region. The Company's three wind plants further assist in mitigating the risks associated with weather.

The Company's plants and operations are exposed to potential damage, partial or full loss, resulting from environmental disasters (e.g. floods, high winds, fires, and earthquakes), equipment failures and the like. These risks are mitigated by carrying appropriate levels of insurance, reviewed annually by management and CHD's insurance broker. The Board of Directors reviews a summary of insurance coverage on an annual basis.

Environment, Health & Safety

The risk of environmental damage during construction activities and operations is of concern to CHD. The Company mitigates this risk, where possible, by employing an environment, health and safety program, and by utilizing insurance and performance bonds to limit its financial exposure.

Regulatory and Political

CHD's operations are also subject to changes in governmental regulatory requirements or the applicable governing statutes, including regulations related to the environment, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Company.

The operation of power generating plants is subject to extensive regulation by various government agencies at the municipal, provincial and federal level. There is always the risk of changes being made in government policies and laws, including rates for water rentals and for income, capital and municipal taxes, and for competitive market and political reasons. CHD closely monitors government activities, particularly in Alberta and Ontario where the process leading up to deregulation of the industry has resulted in a complete review and overhaul of all regulations governing the industry. The Company maintains memberships with associations such as the Independent Power Associations in British Columbia, Alberta and Ontario, the Canadian Hydro Power Association, the Ontario Waterpower Association, the Canadian Wind Energy Association, and the Clean Air Renewable Energy Coalition, which provide the independent power industry with credibility and strength when necessary, to lobby for a competitive and level playing field.

CHD holds permits and licenses from various regulatory authorities for the construction and operation of its plants. These licenses and permits are critical to the operation of the Company's business. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the plants. These permits and licenses are dependent upon the Company's compliance with the terms thereof. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

From time to time, and in order to secure long lead times often associated with ordering equipment, the Company may place orders for equipment and make deposits thereon or advance projects prior to obtaining all requisite permits and licenses. The Company only takes such actions where it reasonably believes that such licenses or permits will be forthcoming in due course prior to the requirement to expend the full amount of the purchase price.

Construction and Design

Delays and cost over-runs may occur in completing the construction of projects. Design or manufacturing flaws may occur, which could conceivably not be covered by warranty or completion bonds. Management of CHD endeavours to obtain warranties and bonds in accordance with good business practice. Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair. This risk is mitigated, where possible, by utilizing preventative maintenance programs and insurance, carrying an inventory of spare parts, and entering into fixed price contracts in order to limit CHD's financial exposure.

Commodity Price

With the majority of CHD's electrical generation sold under long-term contracts to large utilities and select industrial customers, it has effectively built a "safety net" to protect it from a significant loss of sales for several years. When these long-term contracts expire, however, the Company will face market price risks (unless new long-term contracts are entered into), as it currently does with its Drywood, Taylor Hydroelectric, and approximately 50% of Cowley North and Sinnott Wind plants, which sell electricity on a spot basis as "merchant" plants.

The Company seeks to reduce its exposure to the sale of electricity on a spot basis by entering into long-term contracts for at least 75% of its power generation. CHD has long-term contracts in place for the Pingston Expansion and Upper Mamquam Hydroelectric Projects and the Grande Prairie EcoPower(r) Centre. A list of CHD's plants, related contracts and expiry dates are included in the 'Report on Operations' section of the Annual Report.

Credit

The Company sells the majority of its power and, in some cases, renewable energy certificates, to third parties on a long-term basis. In addition, CHD enters into purchase orders with third party suppliers for generation equipment for projects under construction, which involve deposits prior to equipment being delivered. Should one or more of these third parties be unable to meet their obligations under the contracts, this would result in possible loss of revenue, delay in construction, and increase in construction costs. This risk is mitigated, where possible, by entering into contracts with credit worthy third parties, and obtaining letters of credit from these parties.

Interest Rate

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. All of the interest rates on CHD's long-term debt are fixed; either as part of the debt agreement or through interest rate swap arrangements.

Foreign Exchange

The Company, on occasion, purchases equipment from foreign suppliers. As such, CHD may be exposed to changes in the Canadian dollar in relation to the foreign currency denominated equipment purchases. This risk is mitigated, where possible, by fixing the purchase price in Canadian dollars or entering into a foreign exchange swap to fix the exchange rate.

Key Employees

Holders of securities of the Company must rely upon the experience and expertise of several key employees of CHD. The Company's continued success is dependent upon its ability to attract and retain experienced management. This risk is mitigated through the Company's human resources and succession plan. In addition, CHD has key man insurance of $1 million on each of the Chief Executive Officer and Chief Operating Officer.

Industry Risk and Competition

The Company operates in the Canadian power sector, which is effected by competition, supply of and demand for power in the provinces it operates (B.C., Alberta and Ontario), as well as to the U.S. where import/export transmission lines exist, and overall economic conditions in Canada and the U.S. These areas of operation are affected by competition ranging from large utilities to small independent power producers. Some competitors have significantly greater financial and other resources than CHD. The Company manages the risk of these factors negatively impacting its business through its annual and ongoing strategic planning process. In addition, the Company's strategy of focusing on low-impact, renewable projects, as well as its 14 years of experience mitigate this risk.

Additional Financing

To the extent that external sources of capital, including the issuance of additional securities of the Company, become limited or unavailable, CHD's ability to make the necessary capital investments to construct new plants or maintain its existing plants and remain in business will be impaired. There can be no assurance that additional financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing treasury Common Shares, investors may suffer dilution to their holdings of securities of the Company.

Management's Report

To the Shareholders of Canadian Hydro Developers, Inc.:

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Both the financial and operating information presented in the annual report are consistent with that shown in the consolidated financial statements.

Management has implemented appropriate internal systems, procedures and controls to provide reasonable assurance that all transactions are properly authorized, assets are safeguarded and financial records are maintained to facilitate the preparation of reliable, complete and timely consolidated financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, has been engaged to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. The Audit Committee of the Board of Directors, with all of its members being outside directors, has reviewed the consolidated financial statements including the notes thereto with management and Deloitte & Touche LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Chief Executive Officer
January 30, 2004

Chief Financial Officer

Auditors' Report

To the Shareholders of Canadian Hydro Developers, Inc.:

We have audited the consolidated balance sheets of Canadian Hydro Developers, Inc. as at December 31, 2003 and 2002 and the consolidated statements of earnings (loss) and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
January 30, 2004

Deloitte & Touche LLP
Chartered Accountants

Consolidated Statements of Earnings (Loss) and Retained Earnings
Years Ended December 31

	2003 $	2002 $
REVENUE		
Electric energy sales	**21,145,005**	16,292,529
Revenue rebate (Note 8)	**517,404**	503,079
	21,662,409	16,795,608
EXPENSES		
Operating	**4,896,725**	4,992,097
Interest on debt	**4,682,938**	2,853,366
Amortization	**3,970,638**	3,482,358
Administration	**2,408,884**	1,913,747
Prospect development costs	**30,421**	123,826
	15,989,606	13,365,394
EARNINGS BEFORE THE FOLLOWING	**5,672,803**	3,430,214
IMPAIRMENT OF ASSETS (Note 5)	**-**	8,200,000
EARNINGS (LOSS) BEFORE TAXES	**5,672,803**	(4,769,786)
TAX EXPENSE (RECOVERY) (Note 9)		
Current	**926,902**	884,275
Future	**1,658,482**	(2,287,469)
	2,585,384	1,403,194
NET EARNINGS (LOSS)	**3,087,419**	(3,366,592)
RETAINED EARNINGS, BEGINNING OF YEAR	**5,905,040**	9,271,632
RETAINED EARNINGS, END OF YEAR	**8,992,459**	5,905,040
Earnings (Loss) per share (Note 10)		
Basic	**0.05**	(0.07)
Diluted	**0.05**	(0.07)

Consolidated Balance Sheets
December 31

	2003 $	2002 $
ASSETS		
CURRENT		
Cash	**13,780,830**	8,926,096
Accounts receivable	**3,603,049**	4,035,326
Revenue rebate (Note 8)	**517,404**	503,079
Prepaid expenses	**786,168**	666,845
	18,687,451	14,131,346
Capital assets (Note 3)	**168,136,446**	144,198,338
Prospect development costs (Note 4)	**6,487,075**	6,103,282
TOTAL ASSETS	**193,310,972**	164,432,966
LIABILITIES		
CURRENT		
Taxes payable	**120,481**	71,055
Accounts payable and accrued liabilities	**5,223,811**	5,721,678
Current portion of long-term debt (Note 6(a))	**5,111,776**	4,996,617
	10,456,068	10,789,350
Other liabilities (Note 13(b))	**1,061,469**	-
Long-term debt (Note 6(a))	**61,798,742**	66,910,572
Future income taxes (Note 9)	**16,680,452**	15,625,714
	89,996,731	93,325,636
SHAREHOLDERS' EQUITY		
Share capital (Note 7(b))	**93,056,968**	64,052,513
Warrants (Note 7(c))	**1,149,777**	1,149,777
Contributed surplus (Note 7(d))	**115,037**	-
Retained earnings	**8,992,459**	5,905,040
	103,314,241	71,107,330
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**193,310,972**	164,432,966

APPROVED BY THE BOARD

Director　　　　Director

Consolidated Statements of Cash Flows
Years Ended December 31

	2003 $	2002 $
OPERATING ACTIVITIES		
Net earnings (loss)	**3,087,419**	(3,366,592)
Adjustments for:		
Amortization	**3,970,638**	3,482,358
Future income tax expense (recovery)	**1,658,482**	(2,287,469)
Stock compensation expense (Note 7(d))	**115,037**	-
Prospect development costs	**30,421**	123,826
Gain on sale of capital assets	**(7,349)**	-
Impairment of assets (Note 5)	-	8,200,000
Cash flow from operations	**8,854,648**	6,152,123
Changes in non-cash working capital (Note 11)	**(3,965,821)**	(975,870)
	4,888,827	5,176,253
FINANCING ACTIVITIES		
Issue of common shares, net of issue costs (Note 7(b))	**28,400,711**	9,309,516
Long-term debt advances	**25,500,000**	56,331,685
Long-term debt repayments	**(30,496,671)**	(29,434,064)
	23,404,040	36,207,137
INVESTING ACTIVITIES		
Capital asset additions	**(22,343,822)**	(28,093,696)
Prospect development costs	**(1,115,297)**	(2,885,700)
Proceeds on sale of capital assets	**20,986**	-
Purchase of other receivables (Notes 5)	-	(1,625,079)
	(23,438,133)	(32,604,475)
NET INCREASE IN CASH	**4,854,734**	8,778,915
CASH, BEGINNING OF YEAR	**8,926,096**	147,181
CASH, END OF YEAR	**13,780,830**	8,926,096
SUPPLEMENTAL INFORMATION		
Cash interest paid	**5,229,938**	4,247,731
Cash income and capital taxes paid	**877,476**	841,583

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company, its 50% owned subsidiary Pingston Power Inc., and its wholly-owned subsidiaries, Canadian Gas & Electric Inc., Cowley Ridge Wind Power Inc. ("Cowley"), Glacier Power Ltd., 968385 Alberta Ltd., Canadian Hydro Developers (Ontario), Inc. and Canadian Hydro Marketing Inc. The latter two companies are inactive. Inter-company transactions and balances are eliminated upon consolidation.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of guarantees, contingencies and commitments at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates due to factors such as commodity prices, changes in economic conditions, regulatory approvals, and negotiations with other parties (see Notes 2(a), 2(b), 4, 5, 13(b) and 14(a)).

Cash

Cash includes short-term deposits with maturities of 90 days or less.

Financial instruments

A portion of the Company's electrical energy sales are sold on a spot basis in Alberta and, as such, the Company is exposed to commodity price risk. The Company mitigates this risk by entering into long-term physical and financial contracts for the sale of the majority of its electrical generation to third parties.

The Company makes significant purchases of equipment for the construction of new electrical generating plants with foreign suppliers and, as such, is exposed to foreign exchange risk. The Company mitigates this risk by fixing the exchange rate with suppliers prior to the purchase of equipment, when possible.

The carrying value of accounts receivable, revenue rebate, taxes payable, accounts payable and accrued liabilities approximates their fair value at December 31, 2003 and 2002 due to their short-term nature. The Company is exposed to credit related losses, which are minimized as the vast majority of sales contracts are with large utility customers with extensive operations in British Columbia, Alberta and Ontario.

The Company's long-term debt is comprised of a revolving reducing loan, mortgages and a promissory note and, as such, the Company is exposed to interest rate risk. The Company mitigates this risk by either fixing the interest rates upon the inception of the debt or through interest rate swaps. The fair values of the mortgages and promissory note have not been determined, however, management is of the opinion that it has mitigated any risk associated with this long-term debt by entering into fixed rate revenue contracts of similar or longer duration. The carrying value of the revolving reducing loan approximates its fair value due to the floating interest rate nature of the debt. The fair value of the interest rate swap is described in Note 6(a).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Electric operations

Electrical energy sales are recognized at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system, net of gross overriding royalties.

Generating plants are carried at cost which consists of direct labour, material and equipment costs, engineering, related administrative costs and interest incurred during construction. Management amortizes, on a straight-line basis, hydroelectric plants over a 40 year period, notwithstanding their extremely long lives and the unlikelihood that these sites would ever be abandoned due to the renewable nature of the electrical energy being generated. Wind energy plants are amortized, on a straight-line basis, over a 30 year period, notwithstanding the unlikelihood that these sites would ever be abandoned due to the renewable nature of electrical energy being generated. The estimated service life of electric generating plants is subject to periodic review and as a consequence, may change in the future. Such changes will be implemented on a remaining service life basis.

Certain hydroelectric activities of the Company are conducted jointly with others and accordingly, the accounts reflect only the proportionate interest of the Company.

Vehicles, equipment and other

Vehicles, equipment and other assets are recorded at cost and amortized using the declining-balance method over their estimated useful lives at rates ranging from 10% to 50%.

Prospect development costs

The Company accumulates costs associated with electric site prospect development activities. Recovery of these costs is dependent upon the successful completion of the related projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the prospect is abandoned.

Flow-through shares and warrants

Share capital includes flow-through shares and warrants issued pursuant to certain provisions of the Income Tax Act (Canada) (the "Act"). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. Share capital is reduced and future income tax liability is increased by an amount equal to the estimated future income taxes payable by the Company as a result of the renunciations.

Per share amounts

Basic earnings (loss) per share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options or warrants to purchase commons shares were exercised. The treasury stock method is used to determine the dilutive effect of options and warrants, whereby any proceeds from the exercise of options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates that apply in the periods when the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

Additional significant accounting policies

Additional significant accounting policies are described under Note 2.

2. CHANGES IN ACCOUNTING STANDARDS

(a) Effective December 31, 2003, the Company early adopted the new standard for accounting for asset retirement obligations recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under the new standard, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs before salvage values are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

Previously, no provision for future removal and site restoration costs for the Company's wind plants and natural gas plant had been recognized as the costs of restoration were expected to be offset by the salvage value of the related plants. Similarly, no provision for future removal and site restoration costs for the Company's hydroelectric plants had been recognized as the costs cannot be reasonably estimated due to the long service life of these assets and the costs of restoration were expected to be offset by the salvage value.

The Company has legal obligations to restore the sites of its generating plants to their original condition. The fair value of the asset retirement obligation before salvage values for the Company's hydroelectric plants and wind plants cannot be reasonably estimated due to the extremely long life of these assets and the unlikelihood that these sites would ever be abandoned due to the renewable nature of the electrical energy being generated. The estimated fair value of the asset retirement obligation for the Company's natural gas plant is nominal. Accordingly, no provision has been made for the asset retirement obligation.

(b) Effective December 31, 2003, the Company early adopted the new standard for impairment of long-lived assets recommended by the CICA. This standard requires the Company to determine whether the net carrying amount of capital assets is recoverable from future undiscounted cash flows when indicators of impairment exist. Factors which could indicate an impairment exists include significant underperformance relative to historical or projected future operating results, significant changes in the manner or use of the assets, the strategy for the Company's overall business and significant negative industry or economic trends. In some cases these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a later date from their occurrence.

The Company's business, the market and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the capital assets. If the total of the undiscounted future cash flows, excluding financing charges, is less than the carrying amount of the capital assets, asset impairment must be recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair

2. CHANGES IN ACCOUNTING STANDARDS (Continued)

value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is estimated by calculating the present value of expected future cash flows related to the asset.

The application of this standard retroactively to January 1, 2003, had no impact on the Company's consolidated financial statements.

Previously, the Company reviewed and evaluated the net recoverable value of its generating plants periodically. In the event the net recoverable values of its generating plants decreased below the net book values, the generating plants were written down to recognize the loss. The net recoverable values were determined using estimated future cash flows from the generating plants, which were prepared by management in conjunction with an evaluation of the generating plants, which was prepared by an independent firm of engineers.

(c) Effective January 1, 2003, the Company elected to prospectively adopt the fair value method of accounting for options granted subsequent to January 1, 2003 under its stock-based compensation plan as recommended by the CICA. Compensation expense has been recognized in the consolidated statement of earnings with a corresponding increase recorded to contributed surplus in the consolidated balance sheet as at and for the year ended December 31, 2003 using the fair value method as described in Note 7(d). Previously, the Company accounted for this plan using intrinsic values as defined by the CICA and accordingly, did not recognize compensation expense in the consolidated financial statements for share options granted to employees and directors when issued at market value.

The Company's stock-based compensation plan and the impact on net earnings (loss) and net earnings (loss) per share had compensation expense been recognized for options granted prior to 2003, using the fair value method of accounting for stock options issued to employees on or after January 1, 2002, is described in Note 7(d).

(d) Effective January 1, 2002, the Company prospectively adopted the new standard for the presentation of callable debt obligations recommended by the CICA. The new standard relates to the presentation of debt obligations that, by their terms, are due or callable within one year from the balance sheet date, even though payment may not be expected within that period. Under the new standard, debt obligations are classified based on facts existing at the balance sheet date rather than on expectations regarding future financing or renegotiation. As at December 31, 2003 and 2002, there is no impact of the new standard on the consolidated financial statements.

3. CAPITAL ASSETS

The major categories of capital assets at cost and related accumulated amortization are as follows:

	2003			2002		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**	Cost $	Accumulated Amortization $	Net Book Value $
Generating plants						
- operating	**150,921,737**	**18,929,216**	**131,992,521**	114,064,137	15,194,964	98,869,173
- construction -in-progress	**35,318,518**	**-**	**35,318,518**	44,436,364	-	44,436,364
Vehicles	**586,963**	**365,659**	**221,304**	503,973	291,821	212,152
Equipment, other	**1,224,574**	**620,471**	**604,103**	1,195,389	514,740	680,649
	188,051,792	**19,915,346**	**168,136,446**	160,199,863	16,001,525	144,198,338

3. CAPITAL ASSETS (Continued)

Interest costs of $608,000 (2002 - $1,258,000) and administration expenses of $608,826 (2002 - $473,612) associated with the construction-in-progress have been capitalized during construction. At December 31, 2003, construction-in-progress is comprised of costs relating to the Grande Prairie EcoPower® Centre, Pingston Expansion Hydroelectric Project, Upper Mamquam Hydroelectric Project and Taylor Wind Project (2002 - Pingston Hydroelectric Project and Grande Prairie EcoPower® Centre).

4. PROSPECT DEVELOPMENT COSTS

Prospect development costs are comprised of the following:

	2003 **$**	2002 $
Dunvegan Hydroelectric Prospect	**5,568,246**	4,939,360
Hydroelectric prospects	**538,584**	804,649
Wind prospects	**380,245**	359,273
Total	**6,487,075**	6,103,282

In March 2003, the Company received an unfavourable regulatory decision for the Dunvegan Hydroelectric Prospect. The Company has chosen to reapply to regulators for the approval of the prospect utilizing the information previously filed along with considerable new evidence obtained since the original hearing in 2002. Management anticipates requesting a hearing date of late spring 2005 from the regulators, and anticipates a decision will be rendered in late 2005. Management is optimistic that this formal process will result in a positive change to the original decision. However, there can be no assurance that regulatory approvals for this prospect will be obtained. Should the Company not be successful in obtaining regulatory approvals, the prospect would likely be abandoned and the related prospect development costs would be written off.

5. IMPAIRMENT OF ASSETS

Impairment of assets is comprised of the following:

	2003 **$**	2002 $
Drywood Plant	-	6,235,309
Other receivables	-	1,964,691
Total	-	8,200,000

At December 31, 2002, the Company assessed the net recoverable value of the Drywood Plant based on it being a non-core asset that is intended to be eventually sold. The net recoverable value was determined based on the estimated future undiscounted cash flows prepared by an independent firm of engineers and adjusted to estimated net realizable value on disposal. The assessment indicated an excess carrying value and, accordingly, the Drywood Plant was written down to its estimated net recoverable value.

Other receivables in the amount of $1,964,691 relate to amounts owing from First Canadian Electric Inc. ("FCE") and provisions for builder's lien and statements of claim (the "Claims") resulting from FCE's inability to complete the construction of a separate 7.5 MW facility addition to the Company's existing 6.0 MW gas-fired Drywood Plant (the "Addition") and the subsequent bankruptcy of FCE. On December 31, 2003, a $4,500,000 lawsuit that was filed against the Company by FCE in relation to the

5. IMPAIRMENT OF ASSETS (Continued)

Addition was discharged and the Company gained title to all of FCE's assets. The Addition, which comprises the majority of FCE's assets, is nominal, as it is dependent upon the recoverable value of the Drywood Plant, which was written down at December 31, 2002. Therefore, at December 31, 2002, other receivables were written down. At December 31, 2003, one Claim in the amount of $115,000 was outstanding of which $60,000 was provided for at year end as the estimated cost to settle the Claim.

6. CREDIT FACILITIES

(a) *Long-term debt*

Effective June 27, 2003, the Company's credit facilities with its corporate bankers consist of a revolving reducing loan (the "Loan"), letters of credit in the amount of $12,243,723 (2002 - $12,681,957), and a treasury risk line of credit in the amount of $nil (2002 - $3,000,000). The Loan is amortized over 15 years, and has a rolling two year term, which is renewed annually, consisting of a 364 day revolving period plus an additional one year term. If the 364 day revolving period is not renewed, then the Loan converts to a one year term, with monthly repayments of $295,250 and the remaining principal outstanding due at the end of the one year term. The Loan bears interest at prime plus 0.75%, or at Bankers' Acceptances plus a stamping fee of 2%, with monthly principal payments of $295,250 plus interest. Upon inception of the Loan on December 19, 2002, the Company entered into an interest rate swap arrangement to fix the interest rate at 6.77% per annum on 100% of the Loan for the first five years and 50% of the Loan in years six through 10. At December 31, 2003, the fair value of the interest rate swap was ($910,330) (2002 - ($1,078,176)).

The credit facilities with the Company's corporate lenders are secured by a first fixed and floating charge debenture on all plants and subsidiary companies, with the exception of Cowley, a second charge debenture on Cowley, security interest over all present and after acquired personal property, a floating charge over all real property, and an assignment of certain sales agreements.

	2003	2002
	$	$
Revolving reducing loan, bearing interest at prime plus 0.75% or Bankers' Acceptances plus a 2% stamping fee (see Note 6(a) for interest rate swap). Monthly repayments are $295,250 plus interest	**48,479,793**	52,022,793
Mortgage on Cowley, bearing interest at 10.867%, secured by the plant, related contracts and a reserve fund for $725,000 that has been provided by a letter of credit to the lender. Monthly repayments of principal and interest are $120,960 until December 15, 2013	**8,829,276**	9,293,533
Mortgage, bearing interest at 10.7% and secured by letters of guarantee. Monthly repayments of principal and interest are $83,927 until May 31, 2010	**4,655,774**	5,135,403
Mortgage, bearing interest at 10.68%, secured by letters of guarantee. Monthly repayments of principal are $31,250 plus interest until December 30, 2012	**3,375,000**	3,750,000
Promissory note, bearing interest fixed at 6%, secured by a second fixed charge on three of the Alberta hydroelectric plants. Monthly repayments of principal and interest are $19,348 until August 1, 2012	**1,570,675**	1,705,460
	66,910,518	71,907,189
Less current portion	**5,111,776**	4,996,617
Long-term debt	**61,798,742**	66,910,572

6. LONG-TERM DEBT (Continued)

Principal repayments for the long-term debt for each of the five succeeding years are as follows:

	$
2004	**5,111,776**
2005	**5,239,556**
2006	**5,381,359**
2007	**5,538,747**
2008	**5,713,458**
Thereafter	**39,925,622**
	66,910,518

(b) *Revolving construction lines of credit*

On June 27, 2003, the Company executed an amended and restated credit agreement with a syndicate comprised of its existing and two additional Canadian lenders for additional credit facilities in the amount of $59,400,000. The credit facilities consist of 364 day revolving construction lines of credit in the amount of $59,400,000 (the "Construction Lines"), which bear interest at the prime rate plus 1.50% per annum, or at Bankers' Acceptances plus a stamping fee of 2.75% per annum. The Company will pay standby fees of 0.25% per annum for any undrawn portion of the Construction Lines. The Construction Lines will be used to assist in capital expenditures to construct the Grande Prairie EcoPower® Centre, Pingston Expansion and Upper Mamquam Hydroelectric Projects. The Construction Lines are in addition to the Company's existing revolving reducing loan (see Note 6(a)). At December 31, 2003, no amounts were drawn by the Company under the Construction Lines.

7. SHARE CAPITAL

(a) *Authorized*

Unlimited number of common shares
Unlimited number of preferred shares, to be issued in series

(b) *Issued, common shares*

	2003		2002	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance, beginning of year	**52,590,539**	**64,052,513**	48,151,301	55,574,470
Issued as common shares	**16,220,000**	**30,007,000**	-	-
Issued on exercise of stock options	**75,000**	**115,250**	450,000	575,000
Share issue costs, net of tax effect of $603,744 (2002 - $26,527)	**-**	**(1,117,795)**	-	(50,766)
Exercise of warrants	**-**	**-**	3,155,905	6,311,810
Issued as flow-through shares	**-**	**-**	833,333	2,499,999
Tax effect of flow-through share renunciations	**-**	**-**	-	(858,000)
Balance, end of year	**68,885,539**	**93,056,968**	52,590,539	64,052,513

7. SHARE CAPITAL (Continued)

(c) *Warrants*

	2003		2002	
	Number of Warrants	**Amount $**	Number of Warrants	Amount $
Balance, beginning of year	**5,422,222**	**1,149,777**	8,580,122	1,149,777
Exercise of warrants	**-**	**-**	(3,155,905)	-
Expiry of warrants	**-**	**-**	(1,995)	-
Balance, end of year	**5,422,222**	**1,149,777**	5,422,222	1,149,777

On June 26, 2003, the Company filed a final prospectus and entered into an underwriting agreement with a syndicate of underwriters to issue 16,220,000 common shares at a price of $1.85 per share for gross proceeds of $30,007,000, which closed on July 11, 2003. Net proceeds from the offering are being used to fund the construction of the Upper Mamquam and the Pingston Expansion Hydroelectric Projects, with the balance of the proceeds being utilized for the development of prospects and for general corporate purposes.

On June 20 and July 3, 2002, the Company completed private placements totalling 833,333 common shares, issued on a flow-through basis, at a subscription price of $3.00 per share, for gross proceeds of $2,499,999. Qualifying expenditures of $2,499,999 were incurred in 2002, and income tax benefits of $858,000 were renounced to subscribers at December 31, 2002.

During the year ended December 31, 2002, 3,155,905 common share purchase warrants, expiring on October 31, 2002, were exercised at $2.00 per share, for gross proceeds of $6,311,810. The remaining 1,995 common share purchase warrants were not exercised by October 31, 2002 and expired. The common share purchase warrants were issued pursuant to a private placement of 6,315,800 series A and B special share purchase warrants (the "Warrants") on October 19, 2000, which were converted into 6,315,800 common shares and 3,157,900 common share purchase warrants during 2001. Of these Warrants, 5,415,800 Warrants were qualified through a prospectus filed by the Company on June 8, 2001, and 900,000 Warrants were converted prior to the filing of the prospectus in 2001. For accounting purposes, no value was attributed to the common share purchase warrants.

In conjunction with a private placement on July 16, 2001, the Company issued 1,000,000 share purchase warrants, exercisable into common shares at $3.27 per share, which expire on July 31, 2004. For accounting purposes, no value was attributed to the common share purchase warrants.

In conjunction with private placements on September 10 and 28, 2001, the Company issued 4,422,222 share purchase warrants, exercisable into common shares at $2.35 per share, which expire on September 10, 2004. For accounting purposes and using the Black-Scholes option-pricing model, $0.26 was attributed to each common share purchase warrant.

(d) *Options*

The Company has a stock option plan under which the Board of Directors may grant stock options to directors, officers, employees, and other persons considered key to the Company's operations at an exercise price equal to the market price of the Company's common shares at the time of grant. Options issued prior to April 25, 2001 under the plan vested at the time the option was granted, whereas options issued thereafter vest at the rate of 25% on each anniversary date of the option grant. All outstanding options are granted for a ten year term. The total number of options outstanding must not exceed 10% of the total common shares outstanding. At December 31, 2003, the Company had approved for issuance 4,289,500 options (2002 - 4,364,500) of which 4,220,000 were issued (2002 - 3,600,000).

7. SHARE CAPITAL (Continued)

Options reconciliation table:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2001	3,700,000	$1.24
Granted	350,000	$2.40
Exercised	(450,000)	$1.28
Outstanding at December 31, 2002	3,600,000	$1.35
Granted	850,000	$1.93
Exercised	(75,000)	$1.54
Cancelled	(155,000)	$1.86
Outstanding at December 31, 2003	4,220,000	$1.44

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.50 to $1.00	2,020,000	3.0	$0.71	2,020,000	$0.71
$1.25 to $2.10	1,575,000	8.3	$1.88	617,500	$1.82
$2.26 to $3.20	625,000	7.9	$2.70	225,000	$2.57
$0.50 to $3.20	4,220,000	5.7	$1.44	2,862,500	$1.11

Using the fair value method of accounting for stock options issued to employees on or after January 1, 2003, the Company recognized $115,037 ($nil per share) of compensation expense in the consolidated statement of earnings, with a corresponding increase recorded to contributed surplus in the consolidated balance sheet as at and for the year ended December 31, 2003. The weighted average fair value of options granted during the year ended December 31, 2003 was $1.04 per share. The fair value of options granted has been estimated using the Black-Scholes option-pricing model, assuming a risk free interest rate of 4.70%, expected volatility of 40.98%, expected weighted average life of eight years, and no annual dividends paid.

If the fair value method of accounting had been used for stock options issued to employees on or after January 1, 2002, but prior to January 1, 2003, then the effect on net income would have been a decrease of $123,249 ($nil per share) for the year ended December 31, 2003, and an increase to net loss of $78,787 ($nil per share) for the year ended December 31, 2002. The weighted average fair value of options granted during the year ended December 31, 2002 was $1.41 per share. The fair value of options granted has been estimated using the Black-Scholes option-pricing model, assuming a risk free interest rate of 5.25%, expected volatility of 45.68%, expected weighted average life of eight years, and no annual dividends paid.

8. REVENUE REBATE

The revenue rebate is paid by Transalta Utilities Corporation in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act, which will apply until the associated power sale agreements expire in 2013 and 2014. The revenue rebate is based on the federal cash taxes paid by Cowley.

9. TAXES

The components of the future income tax liability at December 31, 2003 and 2002 are as follows:

	2003 **$**	2002 $
Future income tax liabilities		
Capital assets	**16,726,786**	14,834,334
Prospect development costs	**2,215,398**	2,036,302
Future income tax assets		
Non-capital loss carryforwards	**(1,263,026)**	(535,777)
Capital loss carryforwards	**(92,099)**	(90,130)
Share issue costs	**(906,607)**	(619,015)
Net future income tax liability	**16,680,452**	15,625,714

At December 31, 2003, the Company had non-capital loss carryforwards of $3,588,090 (2002 - $1,561,121), which expire in 2007 through 2010. The tax impact of the losses has been recognized in the consolidated financial statements.

Total taxes are different than the amount computed by applying the combined statutory Canadian and Provincial tax rates of 36.87% (2002 - 39.18%) to income before taxes. This difference results from the following:

	2003 **$**	2002 $
Statutory tax rate	**36.87%**	39.18%
Computed expected tax	**2,091,562**	(1,868,802)
- impact of statutory tax rate change on future tax liability	**79,292**	159,448
- large corporations tax and provincial capital taxes	**457,659**	377,528
- impact of M&P tax deduction	**(31,551)**	(36,239)
- other	**(11,578)**	(35,129)
Provision for taxes	**2,585,384**	(1,403,194)
Comprised of:		
Current	**926,902**	884,275
Future	**1,658,482**	(2,287,469)
	2,585,384	(1,403,194)

10. EARNINGS (LOSS) PER SHARE

The following table shows the dilutive effect of dilutive securities on the weighted average common shares outstanding. No adjustments to earnings (loss) were required for the calculation of diluted earnings (loss) per share.

	2003	2002
	Number of Shares	Number of Shares
Basic weighted average shares outstanding	**60,301,457**	49,533,306
Effect of dilutive securities:		
Options	**1,597,191**	1,614,852
Warrants	**-**	45,426
Diluted weighted average shares outstanding	**61,898,648**	51,193,584

Warrants to purchase 5,422,222 (2002 - 5,422,222) common shares at a weighted average price of $2.52 (2002 - $2.52) per share, and options to purchase 625,000 (2002 - 625,000) common shares at a weighted average price of $2.70 (2002 - $2.70) per share were outstanding as at December 31, 2003, but were not included in the computation of diluted earnings (loss) per share because the respective exercise prices exceeded the average market prices of the common shares.

11. CHANGES IN NON-CASH WORKING CAPITAL

	2003	2002
	$	$
Accounts receivable	**432,277**	629,816
Revenue rebate	**(14,325)**	66,426
Prepaid expenses	**(119,323)**	(505,501)
Income taxes payable	**49,426**	(106,107)
Accounts payable and accrued liabilities	**(4,313,876)**	(1,060,504)
	(3,965,821)	(975,870)

12. RELATED PARTY TRANSACTIONS

In connection with the 1989 acquisition of a former subsidiary and as payment for certain engineering services in the normal course of business, gross overriding royalties ranging from 1% - 2% are payable by the Company on electric energy sales on certain of the Company's hydroelectric plants to a company controlled by a director and officer of the Company. During the year, royalties totalling $61,292 (2002 - $59,293) were incurred with $1,829 (2002 - $7,466) payable at year end.

13. GUARANTEES

(a) The Company has various guarantees and indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant adverse impact on the Company's financial statements or operations. In addition to these guarantees and indemnifications, the Company has other specific guarantees and indemnifications, which are described in Notes 6(a) and 13(b).

(b) In accordance with the power plant agreement (the "Agreement") with Canfor Corporation ("Canfor"), a subsidiary of the Company has guaranteed the price of electricity and natural gas purchased by Canfor for their Grande Prairie Mill at prices set out in the Agreement as if the Grande Prairie EcoPower® Centre was operational, until this plant is actually operational on approximately January 1, 2005 (the "Guarantee"). At December 31, 2003, the Company has recorded $1,061,469 as an increase to construction-in-progress and other liabilities for the Guarantee. Management estimates the maximum potential amount of undiscounted future payments to be an additional $1,000,000. The amount of the Guarantee is payable to Canfor in 12 equal monthly installments, commencing January 31, 2005.

To support its obligations under the Guarantee, the Company entered into a contract (the "Contract") with another party whereby the other party will pay the Power Pool of Alberta price (the "Pool Price") to the Company in return for the Company paying the other party a fixed price for approximately 5 MW of electricity per year for three years commencing April 1, 2003. The Contract does not create any obligation by the other party for the physical delivery of electricity to the Company. At December 31, 2003, the Company received cash under the Contract and recorded $369,722 as a decrease to construction-in-progress. At December 31, 2003, the fair value of the Contract would result in a gain of $407,772.

14. COMMITMENTS AND CONTINGENCIES

(a) The Company has a sub-lease agreement (the "Sub-Lease") with Ontario Power Generation ("OPG") for the 6.6 MW Ragged Chute Hydroelectric Plant (the "Plant") that expires on June 30, 2004. The Company is currently in discussions with OPG with respect to a renewal of the Sub-Lease (the "Renewal"). While management is optimistic these discussions will lead to the Renewal, there can be no assurance that the Renewal will be granted. Should the Renewal not be granted, the Company may be required to provide OPG with vacant possession of the Plant on June 30, 2004. Were this to occur, the net book value of the Plant of $10,068,540 at December 31, 2003 would be written off and the Company would pursue all legal remedies available.

(b) In the ordinary course of maintaining plants and equipment, and in constructing new projects, the Company routinely enters into contracts for goods and services. Subsequent to December 31, 2003, the Company committed to approximately $14,300,000 for goods and services for the Pingston Expansion and Upper Mamquam Hydroelectric Projects, the Grande Prairie EcoPower® Centre and the Taylor Wind Project, which will be expended during 2004. These projects will be completed over the next two years.

(c) The Company is committed to sell 80% of its capacity, which represented 85% of its electrical generation for the year ended December 31, 2003, to several third parties under long-term physical fixed price contracts maturing from 2004 to 2027.

14. COMMITMENTS AND CONTINGENCIES (Continued)

(d) The Company has entered into various contracts for differences ("CFDs") with other parties whereby the other parties will pay a fixed price to the Company in return for the Company paying the other parties the average monthly Pool Price for approximately 135,300 MWh per year up to 147,000 MWh per year of electricity commencing May 1, 2002, January 1, 2004 and January 1, 2005. The CFDs mature from 2007 to 2024. While the CFDs do not create any obligation by the Company for the physical delivery of electricity to the other parties, management believes it has sufficient electrical generation, which is not subject to contract, to satisfy the CFDs. One of the CFDs requires there to be an equivalent amount of underlying electricity generated from the Grande Prairie EcoPower® Centre. Should this plant not generate sufficient electricity, the CFD allows for any shortfall to be satisfied by the Company's other generation that is not subject to contract. Management believes it will have sufficient electrical generation from the Grande Prairie EcoPower® Centre to satisfy the CFD. The Company is unable to fair value one of the CFDs for 3,300 MWh per year of electricity because the CFD price includes the sale of Renewable Energy Certificates ("RECs") along with the settlement of the average monthly Pool Price. At December 31, 2003, the fair value of the remaining CFDs would result in a gain of $12,345,550. As there was no forward market price for electricity past 2006, due to the illiquidity of the forward market, the 2006 forward market price for electricity was used for 2007 onwards, discounted at 5%, in calculating fair value.

(e) The Company has entered into various contracts with other parties whereby it has committed to sell 150,000 MWh per year of RECs commencing January 1, 2004 and January 1, 2005, and mature from 2008 to 2024. One of the contracts requires RECs generated from the Grande Prairie EcoPower® Centre in order to satisfy the contract. Should this plant not generate sufficient RECs, the contract allows for any shortfall to be satisfied by the Company's other RECs that are not subject to contract. Management believes it will have sufficient RECs from the Grande Prairie EcoPower® Centre to satisfy the contract.

Corporate Information

MANAGEMENT:

Kent E. Brown, CA
Chief Financial Officer

Angelito de la Paz, CGA
Treasurer

M. Ann Hughes, LLB
General Counsel
Corporate Secretary

John D. Keating, CA
Chief Executive Officer

J. Ross Keating, P.Eng
President and Chief
Operating Officer

David R. Keevill, P.Eng
Manager, Hydro Division

Gavin S. Lowe
Manager, Wind Energy Division

Kelly Matheson, B.Sc.
Manager, Environmental Affairs

Stephen J. O'Gorman
Manager, Business Development
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Cyrille Vittecoq[1],[2]
Montreal, Quebec

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Board Chair

In keeping with Canadian Hydro Developers' commitment to the environment, the paper used for this annual report has been supplied from a sustainable forest program and manufactured using a 100% chlorine-free bleaching process that significantly reduces air emissions. Uncoated paper contains 60% recycled and 24% post consumer fiber. The entire report is printed with vegetable-based inks.

TRANSFER AGENT AND REGISTRAR:

Computershare Trust Company of Canada
Calgary, Alberta; Vancouver, British Columbia; Toronto, Ontario

SHARE STRUCTURE:

Common issued and outstanding:	68,910,539
Fully diluted common shares:	78,527,761

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Calgary, Alberta

BANKERS:

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The Toronto-Dominion Bank, Calgary, Alberta
The Bank of Nova Scotia, Toronto, Ontario
Alberta Treasury Branches, Calgary, Alberta

INDEPENDENT ENGINEERS:

McDaniel & Associates Consultants Ltd.,
Calgary, Alberta

STOCK EXCHANGE LISTING:

Toronto Stock Exchange "KHD"

Strong Leadership Drives Development of the Green Power Industry in Canada!

The leaders of the Green Power industry believe in a balanced approach to building a sustainable future. Green Power is electricity generated from renewable resources in an environmentally responsible, low-impact manner. Green Power gives future generations reliable, efficient and affordable electricity supplies, while still promoting and protecting human health and environmental quality.

Being on the cusp of an emerging industry, Canadian Hydro Developers, Inc. takes a portfolio approach to Green Power. Instead of focusing on one type of renewable energy, such as wind, the Company builds all kinds of low-impact renewable energy projects to suit the various landscapes in Canada.

Canadian Hydro supports the concept of building smaller, low-impact projects across the country. Each project in itself may be insignificant, but by creating hundreds of Green Power facilities across the country, the industry will eventually employ thousands of people while still preserving the natural beauty of Canada.

Large organizations powering their facilities with Green Power, such as Alberta Infrastructure and hotels like the Fairmont Chateau Lake Louise, provide leadership on the consumer side. Smaller companies such as Community Natural Foods and Elements, the Patagonia Store, both based in Calgary, also realize the advantages of promoting Green Power.

The main sources of Green Power in Canada are wind, run-of river hydro and biomass from forestry wood waste. In the future, ocean energy from waves, tides and currents will also be harnessed. Companies with a clear vision of a sustainable future, such as Canadian Hydro, are developing these resources throughout Canada.

New capital investment and job creation, often in rural areas of Canada, are two of the many gains associated with Green Power development. Dependence on fossil fuels is reduced. Canada's energy supply becomes more diversified. Green Power promotes clean air and reduces Greenhouse Gas emissions. Green Power increases competitiveness, a benefit with real significance to all consumers.

The Clean Air Renewable Energy Coalition estimates the potential of Green Power in Canada to be greater than the combined output of all thermal and nuclear facilities. With no fuel price cost or risk, the production costs of wind, hydro and biomass facilities are now within the competitive range of conventional coal and natural gas fired facilities. The biggest financial challenge to the development of Green Power, however, is the large amount of upfront capital required to build a project.

Long-term Power Purchase Agreements (PPAs) are the key to financing construction of Green Power facilities. These PPAs provide a fair balance for consumers, who need stable prices to remain competitive, and for producers, who need predictable revenues to manage their capital risk. In fact, Canadian Hydro's core strength is that more than 80 per cent of its production is sold under 20 year PPAs.

You, too, can participate in the development of the Green Power industry without committing to a long-term PPA. Through the purchase of a Renewable Energy Certificate (REC), the "Green" in Green Power, consumers can create demand for additional Green Power production.

RECs accumulate, account for and transfer beneficial ownership of the green credits from low-impact renewable energy facilities separately from the supply of electricity. Purchasing RECs displays leadership, promoting civic responsibility and acknowledging the importance of Green Power in balancing the mix of resources forming our energy supply.

The interests of both the economy and the environment can be effectively balanced. Green Power producers and consumers have proven that. These leaders will continue to develop the exceptional Canadian Green Power potential in order to meet the needs of future generations.

Design and Production by Semaphore

BALANCE

It's not about 'give and take'
or 'win or lose'.
It's not about compromise.
True balance is about vision and commitment,
pride and achievement.
For Canadian Hydro Developers,
it's about building something
that is so spectacular that
the world is a better place
because you've invested in its care.

CANADIAN
HYDRO
DEVELOPERS, INC